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ZCL
COMPOSITES INC.

annualreport07

making a **lasting** difference

ourmission

To be the leading global provider of environmentally friendly liquid storage solutions, while providing superior returns to our shareholders.

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briefly speaking

2007 Highlights

- Achieved record revenues and earnings with revenue of $104.8 million and net income of $7.5 million. Diluted earnings per share were also a record at $0.29.

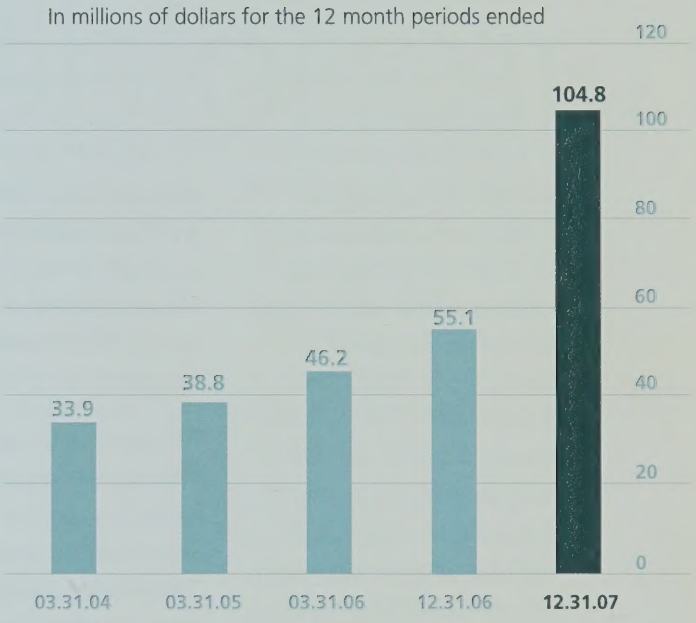
- Acquired Xerxes Corporation on February 22, 2007. This strategic acquisition doubled our revenue and manufacturing base, and provides us with a strong presence in the U.S. to complement our leading position in Canada.

- Financed the acquisition of Xerxes Corporation through the issue of 4,000,000 shares in a "bought" deal generating $37.4 million in net proceeds. The balance of the acquisition was financed with a net $10.0 million term loan facility.

- Continued development of the tank lining system marketed as the Phoenix System™. The Company has now been awarded 11 sites by Chevron Hong Kong Limited (Caltex) up from an initial two in 2006.

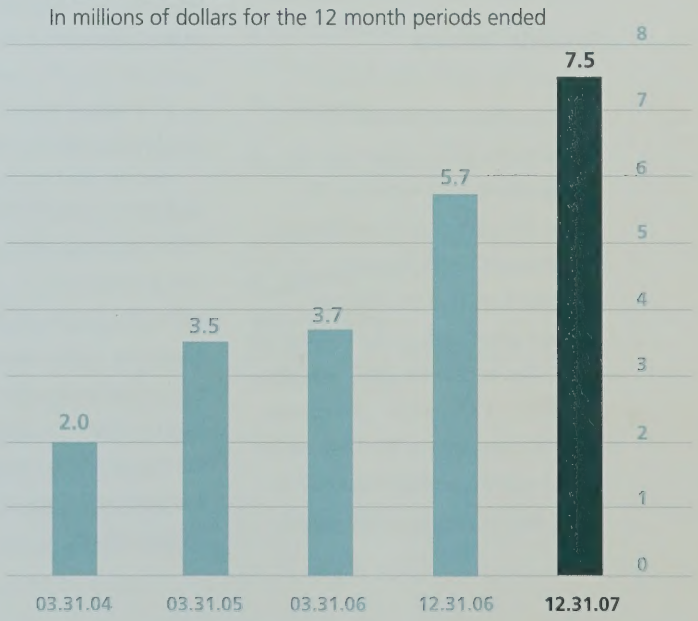
Revenue

In millions of dollars for the 12 month periods ended



Net Income

In millions of dollars for the 12 month periods ended



The year 2007 was an important one in the growth and development of your company, ZCL Composites Inc. It marked another year of strong revenue and earnings growth and was highlighted by the acquisition of Xerxes Corporation in February 2007. This strategic acquisition doubled us in size and provides us with a strong presence in the U.S. market. With our superior, environmentally friendly fibreglass products and expanded market opportunities we are well positioned to achieve continued strong growth.

Financial Results

Revenue for 2007 was a record $104.8 million, an increase of 90% compared to $55.1 million for the 12 months ended December 31, 2006. The growth reflects a strong performance by our new U.S. operations and lower Canadian revenue particularly in the first half of 2007. Net income for 2007 was also a record at $7.5 million, an increase of 33% compared to $5.7 million for the 12 months ended December 31, 2006. Net income for 2007 would have been higher but for $1.7 million ($1.1 million after tax) of costs largely resulting from the acquisition of Xerxes. Diluted earnings per share were $0.29, an increase of 7% compared to $0.27 in 2006.

The acquisition of Xerxes for $46.3 million on February 22, 2007 was funded by a commercial term loan and the net proceeds from a "bought deal" private placement whereby 4,000,000 shares were issued from treasury at $10.00 per share. This share issue increased the weighted average number of diluted shares outstanding for 2007 to approximately 25.7 million, compared to 21.1 million for the twelve months ended December 31, 2006.

Our revenue and EBITDA (earnings before interest, taxes, depreciation and amortization) for 2007 were within the target ranges disclosed in November 2007. Revenue of $104.8 million was within the target range of $104 million to $107 million and EBITDA of $14.6 million was within the disclosed range of $14 million to $16 million.

Highlights and Opportunities

2007 was highlighted by the acquisition of Xerxes, a well managed U.S. industry leader that continues to exceed our initial high expectations. The acquisition created a number of integration opportunities and while some have been realized, additional technological and operational synergies remain, including the introduction of Parabeam®, our patented three dimensional glass fabric into the manufacturing of the U.S. double wall tank.

The Xerxes acquisition also provides us with substantial opportunity to grow revenue in the U.S. petroleum market. Increasing environmental awareness and regulations are creating opportunities for our fibreglass tanks due to their superior corrosion resistance. An example of one opportunity is a regulation adopted by the state of Florida that requires an estimated 10,000 to 15,000 existing single wall

underground petroleum storage tanks to be upgraded or replaced with a secondary containment system by the end of 2009. This represents significant short-term demand, given that demand for the entire U.S. market is typically 12,000 to 15,000 tanks a year. An opportunity to increase market share in the U.S. petroleum market also exists due to a 2007 decision by the Steel Tank Institute ("STI") to reduce the warranty on STI licensed steel tanks to 10 years from 30 years effective January 1, 2008. Our warranty remains intact at 30 years.

A growing opportunity in the U.S., as well as Canada, is increasing our presence in the multi-billion dollar water and wastewater market, traditionally dominated by concrete products. Our structurally strong, watertight and easy to install fibreglass tanks are an ideal alternative to concrete. Currently, we generate about a quarter of our revenue in the U.S. from water and wastewater, but only have a nominal share of this sizeable market. Over the past few years, the U.S. operations have been able to generate annual growth from this market of 30% plus, without a solely dedicated effort. In 2008, we are expanding our sales force and dedicating additional resources to the water and wastewater industry.

After a number of years of strong steady growth, 2007 started slowly for our Canadian operations with revenue down in the first six months compared to the same period in 2006. The decrease reflected a softening in both the upstream and downstream markets. In the second half of 2007, despite continuing economic challenges in the gas sector, Canadian revenue returned to similar levels achieved in the same period of 2006.

Our tank lining system, marketed as the Phoenix System™, is a unique UL / ULC listed internal fibreglass system that allows "in-situ" upgrades of a single wall tank to a corrosion resistant secondary containment storage tank using Parabeam® and our proprietary state-of-the-art curing system. Our main tank lining customer, Chevron Hong Kong Limited (Caltex), contracted with us during 2007 for tank lining installations at 11 locations, up from an initial two locations in 2006. We see additional opportunities ahead for installations in South East Asia. The lining system is also a unique and ideal alternative to tank replacement in the state of Florida.

Outlook

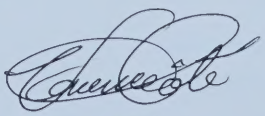
With a number of strong growth opportunities, we remain committed to our long-term profitable growth objective of 15% to 20% per annum. For 2008, we have established a target for revenue growth of more than 20%. This target takes into account the positive impact of a full year of our U.S. operations compared to about ten months in 2007. On the downside, it also assumes a lower U.S. to Canadian dollar conversion rate of $1.00 in 2008, compared to an average rate of $1.05 in 2007.

We have also developed a medium-term objective of improving the Company's EBITDA margin to 20% of revenue. The target for 2008 is to achieve an EBITDA margin of 16% of revenue, compared to an actual EBITDA margin of 13.9% of revenue in 2007.

Our mission remains, "To be the leading global provider of environmentally friendly liquid storage solutions, while providing superior returns to our shareholders." We have a number of organic growth opportunities and with our strong balance sheet we are well positioned to take advantage of strategic and accretive acquisition opportunities to add shareholder value.

I am sincerely grateful for the continued support from our external stakeholders, which include our customers, suppliers and all of our alliance partners and shareholders. I am also most appreciative for the continuous efforts of our employees and the confidence of our Board of Directors as we have grown the company.

Respectfully yours,



Venence Côté
President and Chief Executive Officer
March 17, 2008

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5 Year Comparison

(in thousands of dollars, except per share amounts)	December 31 2007 12 months $	December 31 2006 12 months $	December 31 2006 9 months $	March 31 2006 12 months $	March 31 2005 12 months $	March 31 2004 12 months $
Results of Operations		(note 5)				
Revenue						
Canadian revenue (note 1)	48,834	55,060	41,399	46,166	38,756	33,932
U.S. revenue	55,949	—	—	—	—	—
	104,783	55,060	41,399	46,166	38,756	33,932
Gross Margin (note 2)	22,301	12,867	9,819	9,290	9,087	7,966
EBITDA (note 3)	14,598	9,593	7,224	7,035	7,058	5,213
Net income	7,515	5,670	4,056	3,743	3,480	1,952
Basic earnings per share	0.29	0.27	0.19	0.20	0.20	0.11
Diluted earnings per share	0.29	0.27	0.18	0.18	0.18	0.11
Financial Position						
Working capital	20,642	18,306	18,306	15,119	12,898	10,099
Total assets	94,368	41,415	41,415	36,557	32,624	26,467
Long term debt	8,938	—	—	—	—	—
Shareholders' equity	67,486	32,248	32,248	28,431	23,829	20,882
Common shares outstanding	26,446	21,681	21,681	20,119	17,944	17,511
Cash Flow						
Cash from operations (note 4)	10,112	7,309	5,299	5,779	2,286	6,101
Issue of common shares, net of transaction costs	38,091	3,564	1,590	2,102	411	—
Dividends paid	(2,600)	(2,081)	(2,081)	(1,438)	(1,051)	—
Change in long-term debt	8,938	—	—	—	—	—
Purchase of property, plant and equipment	(3,791)	(1,630)	(1,495)	(921)	(432)	(581)
Business acquisitions	(55,659)	—	—	(2,597)	(1,193)	—

Note 1: Includes revenue from the Company's non-U.S. foreign subsidiaries.

Note 2: Gross margin is defined as revenue less manufacturing costs and selling expenses.

Note 3: EBITDA is defined as income from continuing operations before interest, income taxes and amortization on property, plant and equipment, deferred development costs and intangible assets, gains or losses on foreign exchange and gains or losses on sale of property, plant and equipment.

Note 4: Cash from operations is defined as cash flows from operating activities before changes in non-cash working capital.

Note 5: In 2006, the Company changed its year to December 31 from March 31. For relevant year-over-year comparative purposes we have included financial information for the 12 months ended December 31, 2006, which reflects the audited financial results for the nine months ended December 31, 2006 plus unaudited financial results for the three months ended March 31, 2006.

orporateprofile

Our opportunities are global.

Our Business

The Market Leader

We are the market leader and the largest manufacturer of fibreglass underground tanks in North America and we are developing a growing market for our tank lining system in North America and Asia. Ultimately, our opportunities are global. Our manufacturing capacity includes six strategically located production facilities in Canada and four in the U.S. We also have a plant in the Netherlands where we manufacture our patented Parabeam® three-dimensional glass fibre material. Parabeam is a key component of the ZCL double wall tank and our tank lining system. Superior, environmentally friendly products, along with a focus on building strong, long-term customer relationships over the past 20 years have allowed ZCL to develop into the market leader.

Below: 62,000 U.S. gallon FRP underground wastewater tanks.

Advanced, Environmentally Friendly Liquid Storage

We manufacture and distribute technologically advanced and environmentally friendly fibreglass liquid storage systems, including our core products, underground and aboveground storage tanks. These products, which have single walls or, for extra protection, double walls, are used in a variety of storage applications including petroleum products and water/wastewater. We also supply aboveground storage tanks made of steel and have developed a fibreglass tank lining system that is an attractive alternative to tank replacement.

1987-2007: 20 Years of Growth

Since being established in 1987, ZCL has grown both organically and by acquisition to become North America's leader in the underground fibreglass storage tank industry. We now have over 500 employees and annual revenue of more than $100 million. Our biggest acquisition to date took place on February 22, 2007 when we acquired Xerxes Corporation, a well-managed, highly-successful U.S. manufacturer of fibreglass storage tanks. This strategic acquisition doubled our annual revenues and provides us with a strong U.S. market position to complement our leadership in Canada.

Why Fibreglass?

Fibreglass, sometimes referred to as fibreglass reinforced plastic or "FRP", is an extremely durable material that has superior corrosion resistance. Because of the durability of FRP we can warranty our products against corrosion for up to 30 years. This durability also gives us an advantage against steel tanks, our main competition in the petroleum storage market, and against concrete tanks in the water/wastewater storage market. Time tested and proven to last, our FRP products provide safe liquid storage under some of the most corrosive conditions.

There is significant opportunity to grow.

Downstream Petroleum Market: Fibreglass Products and Opportunities

Fibreglass Tanks

Our customer base includes many of North America's biggest marketers of petroleum products. Our Prezerver® and Greentank® fibreglass tanks are the preferred choice for the storage of refined products such as gasoline, ethanol, diesel fuel and biodiesel. In addition to underground storage tanks used in public refuelling stations, we supply fibreglass tanks to trucking companies, car rental agencies, utility companies, contractors and engineering firms, among other customers. ZCL has a dominant market share position in Canada but only about 35% of the underground petroleum storage market in the U.S. With increasing environmental regulations and other changes we believe there is significant opportunity to grow market share in the U.S.

Biofuels Opportunity

The increased use of renewable fuels such as ethanol and biodiesel provides a strong growth opportunity for our fibreglass products. These biofuels and biofuel blends increase the presence of tank water bottoms, creating ideal conditions for the growth of naturally occurring, yet very corrosive, microorganisms. This phenomenon known as "Microbial Induced Corrosion" or "MIC" accelerates the internal corrosion of a steel tank, while having no impact on fibreglass. We also see opportunity

resulting from the Steel Tank Institute ("STI"), a trade group representing the majority of North American steel tank manufacturers, reducing the warranty period for its new STI licensed underground steel tanks to ten years from 30 years effective January 1, 2008. Our 30-year warranty remains intact, providing us with a market advantage.

Secondary Containment Opportunity

Driven mainly by increased concern for the environment, regulators are beginning to look toward mandatory secondary containment for storage of hazardous liquids. In the state of Florida for example, an existing regulation requires all single wall underground petroleum storage tanks to be upgraded to secondary containment or taken out of the ground and replaced with a secondary containment tank by the end of 2009. On its own, this Florida regulation has the potential to provide significant demand for our double wall tanks and our tank lining system over the next two years. Should other states follow Florida's lead, secondary containment will become a larger long-term growth opportunity.

Tank Lining System

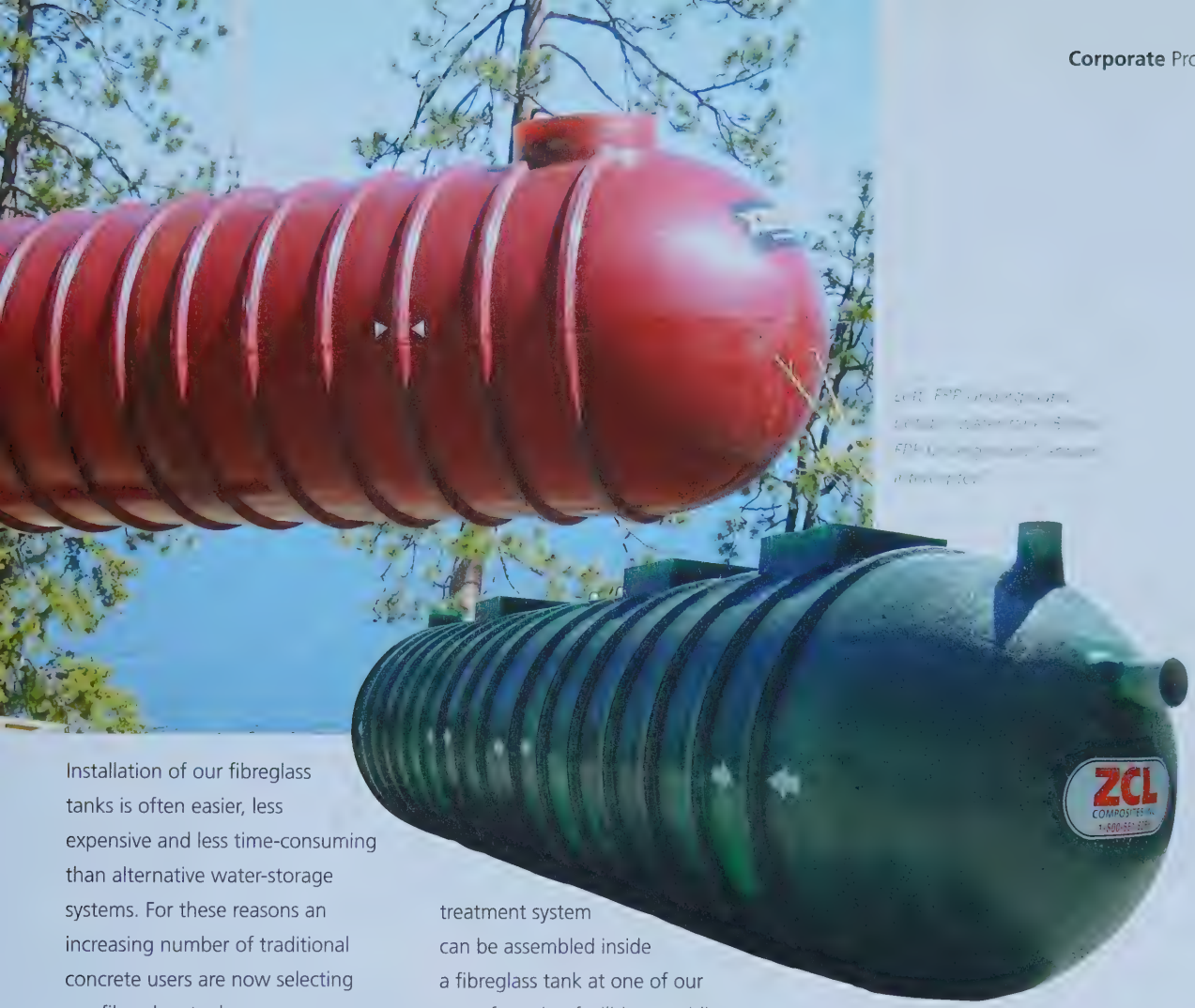
Our fibreglass inner tank lining system, marketed under the Phoenix System™ name, is a unique alternative to replacing an underground tank for refuelling stations. This system allows a steel or single wall fibreglass tank to be upgraded to a corrosion resistant secondary contained storage tank while still in the ground. The lining retrofit takes less time than replacing a tank, while not disturbing the equipment and surrounding area, so the station's convenience store can continue to generate revenue. We believe there is significant long-term global potential for this attractive alternative to tank replacement.

Our fibreglass tanks are ideal for water.

Water/Wastewater: Fibreglass Products and Opportunities

The Opportunity

Water/wastewater storage is a multi-billion industry that has traditionally been dominated by pre-cast or cast-in-place concrete. We currently generate about 25% of our U.S. revenue from water/wastewater but only have a nominal share of this market, so there is significant potential for growth. Our fibreglass tanks are ideal because they are environmentally friendly, structurally strong, corrosion-resistant, watertight and lightweight.



Installation of our fibreglass tanks is often easier, less expensive and less time-consuming than alternative water-storage systems. For these reasons an increasing number of traditional concrete users are now selecting our fibreglass tanks.

The Market

Our fibreglass tanks have a broad range of water/wastewater uses. We offer potable water tanks with a U.S. National Sanitation Foundation certification for housing projects, cottages, parks, campgrounds, resorts, schools and truck stops. Developers of a wide variety of commercial properties use our tanks to provide onsite water storage for fire prevention or storm water retention. Our products are also used to process, hold and treat wastewater for decentralized suburban and rural septic systems. Key components of a complete water treatment system can be assembled inside a fibreglass tank at one of our manufacturing facilities providing considerable savings in both installation time and costs.

Green Advantage

Our tanks are increasingly used in applications that qualify for credits under the sustainable sites and water efficiency categories of the Leadership in Energy and Environmental Design (LEED) Green Building Rating System, established by the U.S. Green Building Council. Such credits are available, for example, when our tanks are used to capture gray water or rainwater that is then used in landscape irrigation, reducing the use of potable water for such purposes.

The Fibreglass Advantage

Concrete is the biggest competitor to our fibreglass tanks for water/wastewater storage, but unlike concrete, fibreglass is not porous and does not crack. Unlike precast concrete tanks, our tanks are light, easy to ship, easy to install and not limited to small capacities. And unlike cast-in-place concrete tanks, ours can be installed in a day, rather than days or weeks, and they are produced in a factory environment with careful quality control processes.

Left: Industrial aboveground vertical (160,000 litre) wastewater collection tank. Below: Horizontal steel double wall tank (50,000 litre), ULC listed for the storage of gasoline.

We are a preferred supplier.

Products for Upstream Petroleum, Industrial and Other Markets

Storage Products for Upstream Petroleum

We supply the Canadian upstream oil and gas sector with an array of underground and aboveground tanks and vessels for the storage of water, brine, hazardous flare/stack waste and chemicals. Long lasting and user friendly tanks such as the Protektor® and Pinnacle™ feature a primary tank that is completely contained within a secondary tank for environmental safety. Our oilfield service fibreglass tanks comply with Alberta Energy and Utilities Board G-55 secondary containment regulations.

Industrial Tanks, Pipes and Stacks

We can provide specialty tanks, pipes and stacks for challenging industrial environments such as oil sands projects, coal-fired power plants, pulp and paper facilities and chemical or petrochemical factories. These industrial operations need fibreglass for its non-corrosive properties. We are a preferred supplier because of the superior structural integrity of our products and our experience in fabrication and cost-effective design.

Heating Oil Tanks

Designed for residential or commercial use, our heating oil storage tanks offer long-term, trouble-free service while providing the highest level of environmental protection. Marketed in Canada and the U.S. as "The Safer Tank," these 100% fibreglass products are available as either a single wall or a double wall. For added production, our double wall tanks come with a built-in visual sight-glass for easy monitoring.

Steel Tanks

While our business primarily involves fibreglass tanks, we also manufacture aboveground steel tanks and fibreglass-lined steel tanks for certain custom applications involving petroleum products and oil and gas production. These tanks are ideal for certain types of remote locations, such as for the storage of aviation fuel for bush pilots. We offer an aboveground fibreglass-lined steel tank package for the biofuels market.

anagement'sdiscussion andanalysis

March 17, 2008

Introduction

The following Management's Discussion and Analysis ("MD&A") of ZCL Composites Inc. ("ZCL" or the "Company") of the results of operations and cash flows for the year ended December 31, 2007, and of the financial position as at December 31, 2007, should be read in conjunction with the Company's consolidated financial statements and related notes for the year ended December 31, 2007, available on SEDAR at www.sedar.com, as well as the Message to Shareholders included in the Annual Report. The Company's financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All figures presented in this MD&A are in Canadian dollars unless otherwise specified.

For the purposes of this MD&A, references to "Canadian operations" shall mean ZCL's Canadian operations and non-U.S. foreign subsidiaries including Parabeam Industries BV located in the Netherlands. References to "Xerxes" and "U.S. operations" shall mean operations acquired pursuant to the acquisition of Xerxes Corporation on February 22, 2007; and, references to "ZCL" and the "Company" shall mean the consolidated Canadian and U.S. operations. The acquisition of Xerxes had a significant positive impact on the consolidated financial results for the year ended December 31, 2007.

The Company's primary operating segment is liquid containment storage systems, including fibreglass underground and aboveground storage tanks, aboveground tanks made of steel, a fibreglass tank lining system and related products and accessories. The Company's other operating activities include fibreglass home heating oil tanks and the manufacture of Parabeam®, a three-dimensional glass fibre material that is a key input into ZCL's double wall tank and tank lining system. These other operating activities are currently not significant to ZCL's operations and therefore the Company does not disclose the results of these operations separately. As noted above, with the acquisition of Xerxes, separate disclosure is provided for revenue generated from the Canadian and U.S. operations.

Advisory Regarding Forward-Looking Statements

This document contains forward-looking statements under the heading "Outlook" and elsewhere concerning future events or the Company's future performance, including the Company's projected operating results for 2008 and beyond, business opportunities in the petroleum, water/wastewater and other industries, anticipated capital expenditure trends and activity in the petroleum and other industries and markets served by the Company. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Actual events or results may differ materially from those reflected in the Company's forward-looking statements due to a number of known and unknown risks, uncertainties and other factors affecting the Company's business and the industries the Company serves generally. These factors, include, but are not limited to, fluctuations in the level of petroleum industry capital expenditures, drilling activity and oil and natural gas prices, and other factors that affect demand for the Company's products and services, industry competition, the need to effectively integrate acquired businesses, uncertainties as to the Company's ability to implement its business strategy effectively in Canada and the United States, political and economic conditions, the Company's ability to attract and retain key personnel, and other risks and uncertainties described under the heading "Risk Factors" in the Company's most recent Annual Information Form, and elsewhere in the Company's MD&A for the year ended December 31, 2007 and in other documents filed with Canadian provincial securities authorities. These documents are available to the public at www.sedar.com. The Company believes that the expectations reflected in these forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this report should not be unduly relied upon. These statements speak only as of the date of this report. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by the Company or on the Company's behalf, whether as a result of new information, future events, or otherwise, except as may be required under applicable securities laws. The forward-looking statements contained in this document are expressly qualified by this cautionary statement.

Non-GAAP Measures

The Company uses both GAAP and non-GAAP measures to make strategic decisions and set targets and believes that these non-GAAP measures provide useful supplemental information to investors. EBITDA, gross profit, gross margin and working capital are measures used by the Company that do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures used by other companies.

EBITDA is defined as income from continuing operations before interest, income taxes and amortization on property, plant and equipment, deferred development costs and intangible assets, gains or losses on foreign exchange and gains or losses on sale of property, plant and equipment. Investors are cautioned that EBITDA should not be construed as an alternative to net income as determined in accordance with GAAP. A table reconciling net income in accordance with GAAP to EBITDA is included later in this MD&A.

Gross profit is defined as revenue less manufacturing and selling costs. Gross margin is revenue less manufacturing and selling costs divided by revenue and expressed as a percentage. Manufacturing and selling costs include direct materials and labour, variable and fixed manufacturing overhead, and marketing and selling expenses, and exclude amortization, general and administration, and financing expenses.

Working capital is defined as current assets less current liabilities.

Change in Year End

The Company changed its fiscal year end from March 31 to December 31 in 2006. The discussion and analysis included in this document primarily compares the audited results for the twelve months ended December 31, 2007 to the unaudited results for the twelve months ended December 31, 2006 as management considers this comparison more relevant. A summary discussion is also included that compares the audited results for the twelve months ended December 31, 2007 to the audited results for the nine months ended December 31, 2006. The financial results for the twelve months ended December 31, 2006 is comprised of the audited financial results for the nine months ended December 31, 2006 plus the unaudited results for the three months ended March 31, 2006. A table reconciling the results for the twelve months ended December 31, 2006 has been provided later in the MD&A.

Business Profile

ZCL is one of North America's leaders in the design, manufacture, and supply of fibreglass liquid storage systems to the petroleum industry. The Company also provides storage tanks to the chemical and pulp and paper industries and is developing a growing presence in the water and wastewater industry. Until earlier this year, the Company primarily operated in Canada with its key manufacturing facilities located in Alberta and Quebec. On February 22, 2007, the Company expanded into the U.S. with the acquisition of Xerxes, a company also involved in the design, manufacture and marketing of fibreglass reinforced plastic structural products for the petroleum, chemical, water and wastewater industries. Xerxes has four manufacturing facilities located in California, Texas, Maryland and Iowa. The acquisition of Xerxes substantially increased the Company's revenues and operations as Xerxes is a similar size to ZCL.

The purchase price for Xerxes of $46.3 million was funded from the net proceeds of a "bought deal" private placement and commercial debt financing. The private placement consisted of the underwriters purchasing 4,000,000 subscription receipts at a price of $10.00 per subscription receipt for total gross proceeds of $40.0 million ($37.4 million in net cash proceeds after deducting expenses of the offering of $2.6 million). Upon the closing of the Xerxes acquisition on February 22, 2007, each holder of subscription receipts automatically acquired one common share of ZCL in exchange for every one subscription receipt held. The balance of the purchase price was funded from a two year term loan from a commercial bank which provided financing of $20.0 million with a minimum repayment requirement of $2.0 million per year. Ten million of the term loan was repaid during the first quarter of 2007.

Overall Financial Performance

The Company achieved strong growth and record revenue and earnings for the year ended December 31, 2007. The growth was driven by the acquisition of Xerxes on February 22, 2007. Revenue for 2007 totalled $104.8 million, an increase of 90% compared to $55.1 million for the twelve months ended December 31, 2006. The new U.S. operations contributed $55.9 million to total revenue in 2007. Revenue from the Canadian operations for 2007 was $48.8 million, down 11% compared to $55.1 million a year earlier. A majority of the decrease occurred in the first half of the year. The lower Canadian revenue reflected a variety of factors including a decrease in natural gas drilling and increasing costs in the oil and gas sector.

Net income was $7.5 million in 2007, an increase of 33% compared to $5.7 million for the 12 months ended December 31, 2006. Net income for the year would have been higher but for costs of $1.7 million ($1.1 million after tax) largely resulting from the acquisition of Xerxes. Diluted earnings per share were also a record at $0.29 for 2007, compared to $0.27 in the same period last year.

The revenue and EBITDA results achieved for 2007 were within the target ranges disclosed in November 2007 when the third quarter results were released to shareholders. Revenue for 2007 of $104.8 million was within the target range of $104 million to $107 million and EBITDA of $14.6 million was within the target range of $14 million to $16 million.

The Company also started and finished the year in a strong financial position. At December 31, 2007, ZCL had positive working capital of $20.6 million, $94.4 million in total assets and long-term debt of $8.9 million including the current portion.

Outlook

The Company remains committed to its long-term profitable growth objective of 15% to 20% per annum. The 2008 revenue target is to achieve growth of at least 20%. This target takes into account the positive impact of a full year of U.S. operations, compared to about ten months in 2007. On the downside, it also assumes a lower U.S. to Canadian dollar conversion rate of $1.00 in 2008, compared to an average rate of $1.05 in 2007. The Company also has established a medium-range objective to improve its EBITDA margin to 20% of revenue. The target for 2008 is to achieve an EBITDA margin of 16% of revenue, compared to an actual EBITDA margin of 13.9% of revenue in 2007.

The Company's consolidated order backlog as of December 31, 2007 was $16.4 million, compared to $18.3 million as of September 30, 2007. The decrease reflects the normal seasonality of the Company's business.

The Company is optimistic about achieving its long-term growth targets as increasing environmental awareness is creating a growing demand for ZCL's fibreglass liquid storage solutions. Management's primary areas of focus for 2008 include the following:

- Maintaining ZCL's leadership position in the Canadian downstream petroleum market by continuing to build and foster strong customer relationships.
- Increasing market share in the U.S. downstream petroleum market. ZCL should benefit from a recent decision by the Steel Tank Institute ("STI") to reduce the warranty on new STI licensed steel tanks to 10 years from 30 years effective January 1, 2008. ZCL's warranty remains intact at 30 years.
- Capitalizing on the opportunity resulting from new regulations, including a regulation in the state of Florida that requires all existing single wall underground storage tanks to be upgraded or replaced with a secondary containment system by the end of 2009. It is estimated that there are 10,000 to 15,000 single wall petroleum tanks in Florida that still need to be upgraded or replaced over this period. That represents significant short-term demand, given that demand for the entire U.S. market is typically 12,000 to 15,000 tanks a year.
- Continuing to develop the Phoenix System™, a tank lining system that allows a single wall tank to be upgraded to a corrosive resistant secondary contained storage tank while still in the ground. The Company is developing a market for this product in Asia through its relationship with Chevron Hong Kong Limited (Caltex). To date, the Company has been awarded 11 sites by Caltex. The Phoenix System™ is also a unique and ideal alternative to tank replacement in the state of Florida.
- Increasing the Company's presence in the water and wastewater market. Currently the Company generates about 25% of its U.S. revenue from water and wastewater but only has a nominal share of this substantial market traditionally dominated by concrete products. The Company's new U.S. operations have been able to generate annual growth from this market over the past few years of 30% plus, without a solely dedicated effort. In 2008, the Company's sales force is being expanded and resources are being dedicated to this market.
- Continuing to integrate the Canadian and new U.S. operations to capture additional technological enhancements, manufacturing efficiencies and cost savings. While synergies have been achieved, additional opportunities exist including the introduction of Parabeam into the U.S. double wall tank.

In addition to the above, the Company has a strong balance sheet and is well positioned to take advantage of strategic and accretive acquisition opportunities that may arise.

Selected Annual Financial Information

(in thousands of dollars, except per share amounts)	Dec 31/07 12 months $	Dec 31/06 12 months* $	Dec 31/06 9 months $	Mar 31/06 12 months $
Operating Results				
Canadian revenue (note 1)	**48,834**	55,060	41,399	46,166
U.S. revenue	**55,949**	—	—	—
	104,783	55,060	41,399	46,166
Gross profit (note 2)	**22,301**	12,867	9,819	9,290
General and administration	**7,703**	3,274	2,595	2,255
Amortization	**3,572**	1,655	1,269	1,497
Financing expense	**1,073**	47	—	266
Income tax provision	**2,438**	2,540	1,899	1,848
Net income from continuing operations	**7,515**	5,351	4,056	3,424
Net income from discontinued operations	—	319	—	319
Net income	**7,515**	5,670	4,056	3,743
EBITDA (note 2)	**14,598**	9,593	7,224	7,035
Basic earnings per share				
Net income from continuing operations	**0.29**	0.26	0.19	0.19
Net income	**0.29**	0.27	0.19	0.20
Diluted earnings per share				
Net income from continuing operations	**0.29**	0.26	0.18	0.17
Net income	**0.29**	0.27	0.18	0.18
Cash Flow				
Cash from operations (note 3)	**10,112**	7,309	5,299	5,779
Issue of common shares, net of transaction costs	**38,091**	3,564	1,590	2,102
Dividends paid	**(2,600)**	(2,081)	(2,081)	(1,438)
Additions to property, plant and equipment	**(3,791)**	(1,630)	(1,495)	(921)
Business acquisitions	**(55,659)**	—	—	(2,597)

As at	Dec 31/07	Dec 31/06	Dec 31/06	Mar 31/06
Financial Position				
Working capital	**20,642**	18,306	18,306	15,119
Total assets	**94,368**	41,415	41,415	36,557
Long term debt	**8,938**	—	—	—

* Figures were compiled using the audited December 31, 2006 results and the unaudited interim quarterly March 31, 2006 results. See reconciliation schedule at the end of this MD&A.

Note 1: Includes revenue from the Company's foreign subsidiaries, Parabeam Industries BV (Netherlands) and VRB & Associates SRL (Barbados).

Note 2: Gross profit and EBITDA are non-GAAP measures and are defined earlier under Non-GAAP Measures.

Note 3: Cash from operations is defined as cash flows from operating activities before changes in non-cash working capital.

Results of Operations

Twelve Months ended December 31, 2007, compared to the Twelve Months ended December 31, 2006

As noted above, the Company changed its fiscal year end from March 31 to December 31 in 2006. The following analysis compares the results for the audited twelve months ended December 31, 2007 to the unaudited twelve months ended December 31, 2006 as management considers this information more relevant. A discussion of the audited results for the twelve months ended December 31, 2007 compared to the audited results for the nine months ended December 31, 2006 is included later in this MD&A.

Revenue

Revenue for the 2007 year was $104.8 million, up 90% from $55.1 million in 2006. The new U.S. operations acquired in February 2007 added $55.9 million to total revenue this year. Revenue from Canadian operations for the year ended 2007 was $48.8 million, down 11% from $55.1 million a year earlier with a majority of the decrease occurring in the first half of the year. The lower Canadian revenue reflected a variety of factors including a decrease in natural gas drilling and increasing costs in the oil and gas sector.

The Company's revenue is subject to fluctuations in the value of the Canadian dollar. As noted above, revenue generated by the U.S. operations totalled $55.1 million in 2007 (2006 – nil) and this revenue was converted into Canadian dollars at a weighted average exchange rate of $1.05. During 2007, the Canadian dollar strengthened significantly relative to the U.S. dollar as demonstrated by the average U.S. dollar conversion rate moving from approximately $1.17 in the first quarter to $0.98 in the fourth quarter of 2007. While the strengthening of the Canadian dollar had a negative impact on revenue generated in 2007, it had a limited impact on the overall operating results as the net earnings generated by the U.S. operations were naturally hedged by materials denominated in U.S. dollars purchased by the Canadian operations. For further clarification, the revenue generated in U.S. dollars was similar to the total expenses incurred that were denominated in U.S. dollars. On a go forward basis, there can be no assurance that this natural hedge will continue to occur and as a result the Company's earnings may be positively or negatively impacted by fluctuations in the value of the Canadian dollar.

Gross Profit and Margin

For the year ended December 31, 2007, gross profit was $22.3 million, up 73% from $12.9 million a year earlier. Gross margin was 21.3% of revenue for the year ended 2007, compared with 23.4% of revenue in 2006. The lower gross margin was due in part to the fixed manufacturing and selling costs being absorbed over a lower Canadian revenue base. The margin decrease was also due to a lower than usual margin on the sale of Xerxes finished good inventory acquired at the acquisition date. Upon acquisition, Xerxes finished goods inventory was recorded at selling price less costs to sell the inventory. This resulted in an increase of $1.1 million to the carrying value of inventory that was charged to manufacturing costs as the inventory was sold in 2007. Excluding this inventory adjustment, the gross margin for 2007 would have been 22.3%.

General and Administration, Amortization, and Financing Expense (Income)

General and administrative expenses were $7.7 million in 2007, up 135% from $3.3 million in the prior year primarily due to the inclusion of the new U.S. operations. The increase also reflects $0.6 million of costs resulting from the acquisition of Xerxes and professional fees in respect of the implementation of associated financing transactions.

Amortization totalled $3.6 million in 2007, up 116% from $1.7 million in the previous year. The overall level of amortization increased due to higher capital spending and the acquisition of Xerxes.

Financing expense was $1.1 million in 2007, compared to a negligible amount in the prior year. The most significant component of financing expense was interest on the long-term debt used to acquire Xerxes. The 2007 expense also included a foreign exchange loss of $0.3 million on U.S. forward contracts closed during the first quarter. These contracts were purchased to mitigate the currency risk associated with the Xerxes acquisition. No forward exchange contracts were entered into over the remainder of 2007.

Income Taxes

Income tax expense represented 24.5% of pre-tax income in the twelve month period of 2007, compared with 32.2% of pre-tax income in the twelve month period of 2006. The Company's statutory Canadian tax rate was approximately 32.55% and U.S. tax rate was approximately 38.0%. The lower effective income tax rate for 2007 reflects financing transactions related to the acquisition of Xerxes.

Net Income and Earnings per Share

Net income for 2007 was $7.5 million, up 33% from $5.7 million in the prior year. The increase reflects the positive impact of the Xerxes acquisition. Basic earnings per share were $0.29 in 2007, up 7% from $0.27 in the prior year and diluted earnings per share were $0.29 in 2007, also up 7% from $0.27 in 2006. The lower increase in earnings per share relative to the 33% increase in net income reflects the impact of the shares issued in conjunction with the private placement completed to facilitate the acquisition of Xerxes.

Other Comprehensive Loss

The Company had other comprehensive loss ("OCL") of $8.7 million for the year ended December 31, 2007. The OCL primarily relates to the decrease in the value of the U.S. dollar relative to the Canadian dollar and the translation of the Xerxes/U.S. operations into Canadian dollars. The operations are classified as self-sustaining foreign operations for accounting purposes where assets and liabilities are translated at the exchange rate in effect at the balance sheet date in accordance with GAAP. The OCL of $8.7 million reflects the U.S. dollar translation rate decreasing from $1.17 at the date of acquisition of Xerxes on February 22, 2007 to $0.98 at December 31, 2007.

Year ended December 31, 2007, compared to the Nine Months ended December 31, 2006

The Company's financial results for the year ended December 31, 2007 varied from the nine month period ended December 31, 2006 due to the same factors noted above for the twelve month-over-twelve month comparison. The revenue, expenses and earnings for the twelve months ended December 31, 2007 were also higher compared to the nine month period due to the extra three months. The audited financial statements and the tables included elsewhere in this MD&A outline the Company's operating results for the twelve months ended December 31, 2007 and the nine months ended December 31, 2006. A detailed discussion and analysis of the twelve versus nine month period has not been provided as there is no additional relevant information to be provided. Further, management believes that it is not relevant or useful to compare the financial results for periods of different lengths.

Summary of Quarterly Results

The following selected information for the eight most recent quarters should be read in conjunction with the applicable interim unaudited and annual audited consolidated financial statements and accompanying notes.

Quarterly Unaudited Results

(in thousands of dollars, except per share amounts)	Dec 31/07 $	Sep 30/07 $	Jun 30/07 $	Mar 31/07 $	Total $
Total revenue	**30,013**	**31,293**	**28,532**	**14,945**	**104,783**
Net income	**2,766**	**2,546**	**2,126**	**77**	**7,515**
Basic earnings per share (note 1)	**0.10**	**0.10**	**0.08**	**—**	**0.29**
Diluted earnings per share (note 1)	**0.10**	**0.10**	**0.08**	**—**	**0.29**

(in thousands of dollars, except per share amounts)	Dec 31/06 $	Sep 30/06 $	Jun 30/06 $	Mar 31/06 $	Total $
Total revenue	14,873	13,974	12,552	13,661	55,060
Net income	1,488	1,611	957	1,614	5,670
Basic earnings per share (note 1):					
Net income from continuing operations	0.07	0.08	0.05	0.07	0.26
Net income	0.07	0.08	0.05	0.08	0.27
Diluted earnings per share (note 1):					
Net income from continuing operations	0.07	0.07	0.04	0.06	0.26
Net income	0.07	0.07	0.04	0.07	0.27

Note 1: Quarterly basic and diluted earnings per share do not total to annual basic and diluted earnings per share due to the timing of the calculation.

The Company's financial results have historically been affected by seasonality with the lowest levels of activity occurring in the first half of each year. The revenue and earnings for the eight quarters shown above were also impacted by the acquisition of Xerxes U.S. operations acquired on February 22, 2007. These new U.S. operations doubled the Company's revenue and operations. The Company is also subject to fluctuations in the U.S. exchange rate with the addition of the U.S. operations that can result in a positive or negative impact on the Company's earnings.

Fourth Quarter

The Company's revenue, gross profit, general and administration expenses, amortization and net income essentially doubled in the fourth quarter of 2007 relative to the same quarter in 2006. The increase for each item was primarily due to the new U.S. operations which resulted from the acquisition of Xerxes on February 22, 2007. Both basic and diluted earnings per share were also strong in the fourth quarter of 2007 compared to the same quarter of 2006; however the increases did not reflect the full doubling of net income due to the impact of the shares issued in conjunction with the private placement completed to facilitate the acquisition of Xerxes.

Other items of note in the fourth quarter include a 5% decrease in Canadian revenue due to lower activity in the oil and gas sector. The gross margin was strong in the fourth quarter of 2007 at 24.0% but slightly below 24.8% in the fourth quarter last year. The effective income tax rate for the fourth quarter of 2007 was 32.7%, compared to 30.0% in the same quarter of 2006. The higher rate reflects the income generated by the U.S. operations and the higher U.S. tax rate of approximately 38.0% compared to the statutory Canadian tax rate of approximately 32.6% (2006 – 32.3%) partially offset by financing transactions related to the acquisition of Xerxes. Other comprehensive loss for the fourth quarter of 2007 was $589,000 primarily due to the U.S. dollar translation rate decreasing from approximately $0.99 at September 30, 2007 to $0.98 at December 31, 2007.

Liquidity and Capital Resources

As at December 31, 2007, the Company had positive working capital (current assets less current liabilities) of $20.6 million, compared with $18.3 million at December 31, 2006. Current assets increased by $9.7 million while current liabilities increased by $7.3 million largely reflecting the additional assets and liabilities from the Xerxes acquisition. At the end of the year, the Company had cash and cash equivalents of $2.0 million, compared to $7.8 million a year ago. The Company also has a revolving operating credit facility, provided by a chartered bank, available to a maximum of $15.25 million subject to meeting prescribed margin requirements. The Company was in compliance with all required bank covenants. Management believes that internally generated cash flows along with the available revolving operating credit facility noted above, will be sufficient to cover the Company's normal operating and capital expenditures in 2008. Capital expenditures to maintain the Company's current capacity in 2008 are expected to be comparable to 2007 levels.

On February 22, 2007, the Company acquired Xerxes for $46.3 million. This acquisition was funded from the net proceeds of a "bought deal" private placement and commercial debt financing. The private placement consisted of the underwriters purchasing 4,000,000 subscription receipts at a price of $10.00 per subscription receipt for total gross proceeds of $40.0 million ($37.4 million in net cash proceeds after deducting expenses of the offering of $2.6 million). Upon the closing of the Xerxes acquisition on February 22, 2007, each holder of subscription receipts automatically acquired one common share of ZCL in exchange for every one subscription receipt held. The balance of the purchase price was funded from a two year term loan from a commercial bank which provided financing of $20.0 million with a minimum repayment requirement of $2.0 million per year. Ten million of the financing was repaid in the first quarter of 2007. The Company also borrowed against its operating line of credit to repay Xerxes bank indebtedness of $6.3 million.

During 2007, the Company generated cash flow from operating activities of $10.1 million, before changes in non-cash working capital. This cash flow and the cash on hand at the end of 2006 of $7.8 million was used to repay the $6.3 million bank indebtedness resulting from the acquisition of Xerxes, pay a dividend of $2.6 million on April 4, 2007 and repay long-term debt totalling $1.0 million. The cash flow was also used to fund property, plant and equipment additions totalling $3.8 million and the acquisition of the operating assets of Cara Concrete Products Ltd. for $3.0 million.

Contractual Obligations

To establish a captive insurance company, Radigan Insurance Inc. ("Radigan"), the Company supplied a U.S. $500,000 Letter of Credit to secure claims in favour of the Commissioner of Insurance for the State of Montana. Radigan provides insurance protection for product warranties, patent infringements, deductible buy down for the U.S. workers' compensation program and the general liability coverage for the U.S. operations. As at December 31, 2007, ZCL's minimum annual lease commitments under all non-cancellable operating leases for production facilities, office space and automotive and equipment were $8,103,000. The Company has purchase obligations to acquire equipment in the amount of $699,000 at December 31, 2007 that are expected to be paid in the first quarter of 2008.

Pension obligation: The Company's defined benefit pension plan acquired as a result of the Xerxes acquisition is underfunded by $284,000 at December 31, 2007. Management expects to fully fund this shortfall in 2008 upon final settlement of the plan through the transfer of the assets and liabilities to a private insurance company. As part of the settlement process, participants will have the option of receiving a lump sum payment or a guaranteed annuity contract that would be purchased by the plan from a private insurance company. The expected benefit payments to be made by the plan for 2008 to the participants are approximately $98,000, assuming no lump sum payments, or $614,000, assuming approximately one half of the participants opt for lump sum payments.

Transactions with Related Parties

A corporation controlled by a director of the Company provided trucking services to the Company during 2007. This director resigned from the Board effective September 18, 2007 and is therefore no longer a related party. Included in manufacturing and selling costs in the consolidated statements of income in 2007 was $428,000 (2006 - $473,000) related to these trucking services. The transactions were recorded at the exchange amount being normal commercial rates for the services. Accounts payable and accrued liabilities at December 31, 2007 included $22,000 (December 31, 2006 - $26,000) owing to the corporation.

In addition, certain of the Company's manufacturing components were purchased from a corporation who's Chairman and CEO became a director of the Company effective May 15, 2007. Purchases from this corporation for 2007, included in manufacturing and selling costs in the consolidated statements of income, totalled $103,000 (2006 - $165,000). Purchases from May 15, 2007 to the end of the year totalled $53,000. The transactions are recorded at the exchange amount being normal commercial prices for the components. Accounts payable and accrued liabilities at December 31, 2007 included $1,000 (2006 - $3,800) owing to the corporation. There are no ongoing contractual or other commitments resulting from these transactions.

Contractual obligations due over the next five years and thereafter:

(in thousands of dollars)	2008 $	2009 $	2010 $	2011 $	2012 $	2013 and Thereafter $	Total $
Long term debt	2,000	6,938	—	—	—	—	$8,938
Operating leases	1,779	1,637	1,115	953	861	1,758	8,103
Purchase obligations	699	—	—	—	—	—	699

Changes in Accounting Policies including Initial Adoption

Financial Instruments, Equity and Comprehensive Income

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation; Section 3865, Hedges; Section 1530, Comprehensive Income; and Section 3251, Equity, prospectively without restatement of prior periods.

Section 1530 provides guidance on the reporting and presentation of comprehensive income. Comprehensive income is the change in equity of an enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Other comprehensive income comprises revenues, expenses, gains and losses that are recognized in comprehensive income, but are excluded from net income calculated in accordance with GAAP. The adoption of this standard had no impact on the Company's retained earnings as at January 1, 2007. Subsequent to the adoption of this new standard, the Company recorded unrealized losses on the translation of self-sustaining foreign operations during the fourth quarter of $0.6 million ($8.7 million for the year ended 2007) in other comprehensive loss.

Under Section 3855, financial assets and liabilities are classified as either held for trading, available-for-sale, loans and receivables, investments held to maturity, and other financial liabilities. Financial assets classified as held for trading and available-for-sale are measured on the balance sheet at fair value. Subsequent change in the fair value of held for trading financial assets is recognized into net income immediately. Changes in the fair value of financial assets available-for-sale are recorded in comprehensive income until the investment is derecognized or impaired at which time amounts would be recorded to net income. Loans and receivables, investments held to maturity and other financial liabilities are measured on the balance sheet at amortized cost. All derivative instruments of the Company, including those embedded in other financial instruments, are recorded at fair value and classified as held for trading.

On adopting Section 3855 and 3861, the Company classified its financial assets and liabilities of cash and cash equivalents, accounts receivable, other assets, bank indebtedness and accounts payable and accrued liabilities as held for trading financial instruments. The adoption of the new standards did not have a material impact on the presentation of the financial statements. The Company also classified long term debt as other financial liabilities. The Company has not recorded any financial instruments as available-for-sale, loans or receivables, or held to maturity investments during the year.

For financial assets and liabilities classified as other, the transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are recorded as part of the fair value initially recognized for that financial instrument. These costs are expensed using the effective interest method and recorded within interest expense.

Prior to the adoption of the new standards, derivatives embedded in other financial instruments were not accounted for separately from the host instrument. On adopting the new standards, the Company performed a review of all of its contracts to identify any embedded derivatives. No significant embedded derivatives were identified.

Section 3865 replaces and expands prior guidance on hedging relationships by prescribing when and how hedge accounting may be applied. Application of hedge accounting is optional. During the year, the Company entered into foreign currency forward contracts, the price of which was denominated in U.S. dollars. These derivative contracts, not accounted for as hedges, were marked to market and changes in the market value were recorded in income or expense when the changes occurred. As at December 31, 2007, there were no outstanding contracts as they were all closed out within the first quarter. The adoption of the new standard did not have a material impact on the presentation of the financial statements.

Section 3251 requires separate presentation of changes in equity for the period from net income, other comprehensive income, retained earnings, contributed surplus, share capital and reserves and separate presentation of the components of equity, including retained earnings, accumulated other comprehensive income (loss), contributed surplus, share capital and reserves.

Accounting Changes

Effective January 1, 2007, the Company adopted CICA Section 1506, Accounting Changes. The new standard allows for voluntary changes in an accounting policy only when the changes result in the financial statements providing reliable and more relevant information, requires a change in accounting policy to be applied retroactively unless impracticable, requires prior period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. It includes the disclosure, on an interim and annual basis, of a description and the impact on the Company's financial results of any new primary source of GAAP that has been issued but is not yet effective. The adoption of the new standard did not have an impact on the Company's consolidated financial position or on the results of its operations.

Recent Accounting Pronouncements

In October 2006, the CICA issued Section 1535, Capital Disclosures. The new standard requires disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the Company's objectives, policies and processes for managing capital. These recommendations are effective for the Company's interim and annual reporting periods beginning January 1, 2008. The Company expects there will be incremental disclosures required regarding the Company's capital and how it is managed.

The CICA also issued Section 3862, Financial Instruments – Disclosure and 3863, Financial Instruments – Presentation in October 2006. These Sections will effectively replace existing Section 3861, Financial Instruments – Disclosure and Presentation effective for the Company's interim and annual reporting periods beginning January 1, 2008. Section 3862 requires disclosures by class of financial instruments that enable users to evaluate the significance of financial instruments for the Company's financing position and performance. Disclosures are also required of qualitative and quantitative information that enables users of financial statements to evaluate the nature and extent of the Company's exposure to the risks arising from financial instruments, specifically credit risks, liquidity risks and market risks. Quantitative disclosures must also include a sensitivity analysis for each type of market risk the Company is exposed to and how net income and other comprehensive income would be affected. Section 3863 carries forward the presentation requirements of 3861 already adopted by the Company. As a result, the Company expects the only effect of the new standards will be additional disclosures regarding the significance of financial instruments for the Company's financing position and performance and the nature, extent and management of risks arising from financial instruments to which the Company is exposed.

In June 2007, the CICA issued Section 3031, Inventories. The new standard requires inventories to be measured at the lower of cost and net realizable value and provides guidance on the determination of cost, including the allocation of overheads and other costs to inventories. The standard also requires the consistent use of either the FIFO (first in, first out) or weighted average cost formula to measure inventories and the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. Disclosure is required for the amount of inventories recognized as an expense, as well as any inventory write-down or reversals. The standard is effective for the Company's interim and annual reporting periods beginning January 1, 2008. The Company does not expect the new standard to have a material impact on its consolidated financial position or on its results of operations.

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The new pronouncement establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of adopting the standard.

In February 2008, Canada's Accounting Standards Board confirmed January 1, 2011 as the official changeover date for publicly listed Canadian companies to start using International Financial Reporting Standards ("IFRS"). As the International Accounting Standards Board currently has projects underway that should result in new pronouncements and the Canadian convergence initiative is just beginning as of the date of these statements, the Company has not yet assessed the impact of the ultimate adoption of IFRS.

Critical Accounting Estimates

The Company's financial statements have been prepared following GAAP. The measurement of certain assets and liabilities is dependent upon future events whose outcome will not be fully known until future periods. Therefore the preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Such estimates and assumptions have been made using careful judgments, which in management's opinion, are within reasonable limits of materiality and conform to the significant accounting policies summarized in the consolidated financial statements. Actual results may vary from those estimated.

With the acquisition of Xerxes, certain estimates were required in determining the fair values of the acquired assets and liabilities and the remaining useful lives of finite life intangible assets. Management used an external valuator to assist in developing the key assumptions and resulting fair value estimates. Management concluded that the fair value of acquired assets and liabilities was substantially complete at the end of the second quarter. Subsequently, additional information related to income taxes and pension liabilities was identified that required an adjustment to certain of the fair values at year end. These final adjustments resulted in a decrease to other long term assets and future tax liabilities of $474,000 and $589,000 respectively and an increase to non-cash working capital, and accrued pension liability of $315,000 and $168,000 respectively for a net decrease to recorded goodwill of $262,000.

Property, Plant and Equipment, Deferred Development Costs, Intangible Assets and Goodwill

Property, plant and equipment, deferred development costs, and intangible assets with finite lives are recorded at cost less accumulated amortization. Goodwill and indefinite life intangible assets are recorded at cost. The unamortized balances, or carrying values, are regularly reviewed for recoverability or tested for impairment whenever events or circumstances indicate that these amounts exceed their fair values. The valuation of these assets is based on estimated future net cash flows, taking into account current and future industry and other conditions. An impairment loss would be recognized for the amount that the carrying value exceeds the fair value.

The acquisition of business assets are accounted for using the purchase method and the allocation of the purchase price relating to the purchases is completed in accordance with GAAP. This allocation results in values being assigned to assets acquired based on expected future cash flows, and other methods, using estimates, assumptions and other information available at the time of acquisition.

Amortization of property, plant and equipment, deferred development costs, and intangible assets with finite lives is based on estimates of the useful lives of the assets. The useful lives are estimated, and a method of amortization is selected at the time the assets are initially acquired and then re-evaluated each reporting period.

Judgment is required to determine whether events or circumstances warrant a revision to the remaining periods of amortization. The estimates of cash flows used to assess the potential impairment of these assets are subject to measurement uncertainty. No impairment loss or write down was required to be recognized in either the twelve months ended December 31, 2007 or the nine months ended December 31, 2006. A significant change in these estimates and judgments could result in a material change to amortization expense or impairment charges.

Self-insured Liabilities

The Company self-insures certain risks related to pollution protection provided on certain product sales, general liability claims, health benefit claims and patent infringement through Radigan Insurance Inc., its captive insurance company. The provision for self-insured liabilities includes estimates of the costs of reported and expected claims based on estimates of loss using assumptions determined by a certified loss reserve analyst. The actual costs of claims may vary from those estimates, and the difference may be material.

Warranties

The Company generally warrants its products for a period of one year after sale, and for up to thirty years for corrosion, if the products are properly installed and are used solely for storage of listed liquids. The Company's complete storage systems marketed under the Prezerver™ trademark carry an enhanced ten year warranty covering product replacement and pollution protection up to the limits allowed under the policy. Until December 1, 2006, the Prezerver warranty was covered by insurance underwritten by a major international insurer. Effective, December 1, 2006, the Company decided to form its own insurance captive to insure the Prezerver program. In the ten years

the Company has been involved with the Prezerver program, a single claim has not been registered. Additionally, a number of component materials and parts are similarly warranted by their manufacturers, thereby reducing the Company's exposure to warranty claims.

The Company provides for warranty obligations based on a review of products sold and historical warranty cost experience. Provisions for warranty costs are charged to manufacturing and selling costs and revisions to the estimated provision are charged to earnings in the period in which they occur. The Company maintains high quality standards at its production facilities, uses only reputable suppliers for raw materials and other products, and has an unblemished history of no liability or warranty problems under the Prezerver system. There can be no assurance that third party or self insurance will sufficiently cover all potential claims. The actual costs of warranties may vary from those estimated, and the difference may be material.

Allowance for Doubtful Accounts

The Company's accounts receivable balance is a significant portion of overall assets. Credit is spread among many customers and the Company has not experienced significant accounts receivable collection problems in the past. The Company performs ongoing credit evaluations and maintains allowances for doubtful accounts, based on the assessment of individual customer receivable balances, credit information, past collection history and the overall financial strength of customers. A change in these factors could impact the estimated allowance and the provision for bad debts recorded in the accounts. The actual collection of accounts receivable and the resulting bad debts may differ from the estimated allowance for doubtful accounts and the difference may be material.

Financial and Other Instruments

The consolidated financial statements are reported in Canadian dollars, including the results of the Company's significant foreign subsidiaries: U.S. - Xerxes, Netherlands - Parabeam Industries BV and Barbados - VRB. Certain transactions, revenue and expenses are generated or incurred in other currencies, largely United States dollars and Euros. The Company's global operations gives rise to the risk that earnings and cash flows may be adversely affected by fluctuations in foreign currency exchange rates. The U.S. operations account for approximately one half of the Company's revenues and expenses being conducted in U.S. dollars. The Company's Canadian operations also purchases materials that are denominated in U.S. dollars and in 2007 these purchases approximated the earnings generated by the U.S. operations resulting in a natural hedge of the Company's overall earnings. While the Company's overall earnings were generally naturally hedged against fluctuations in the U.S. – Canadian dollar conversion rate, the gross amount of revenue and expenses can fluctuate based on changes in the conversion rate. For example, in 2007 the average conversion rate was $1.05 and a $0.01 change in this rate would have increased or decreased the reported U.S. revenue amount of $55.9 million by approximately $0.6 million. On a go forward basis, there can be no assurance that this natural hedge will continue to occur and as a result the Company's earnings may be positively or negatively impacted by fluctuations in the value of the Canadian dollar.

Other than the foreign currency contracts entered into when Xerxes was acquired, the Company does not currently use financial instruments to hedge risks associated with fluctuating foreign exchange rates. During the year, the Company entered into foreign currency contracts denominated in U.S. dollars to hedge the purchase price of Xerxes. Such derivative contracts, not accounted for as hedges, are marked to market, and any changes in the market value are recorded in income or expense when the changes occur. As at December 31, 2007, there were no outstanding contracts as they were all closed out within the year.

Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all material information related to the Company, including its consolidated subsidiaries, is made known to senior management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") on a timely basis so that appropriate decisions can be made regarding public disclosure. As at December 31, 2007, an evaluation was conducted by and under the supervision of management, including the CEO and CFO, of the effectiveness of the Company's disclosure controls and procedures as defined under Multilateral Instrument 52-109. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective.

Internal Controls over Financial Reporting

Internal controls over financial reporting ("ICFR") are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its preparation of financial statements for external reporting purposes in accordance with GAAP. As at December 31, 2007, an evaluation was conducted using the criteria in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), by and under the supervision of management, including the CEO and CFO, of the Company's design of ICFR. Based on this evaluation, the CEO and CFO have concluded the design of the Company's ICFR provided reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Management has evaluated whether there were changes in the Company's ICFR during the most recent interim period ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. No material changes were identified through management's evaluation in the fourth quarter, which also included an evaluation of the design of Xerxes ICFR. During 2007, the Company added additional management personnel to its accounting and financial reporting team. The Company also enhanced its review processes over financial reporting and updated the documentation of certain policies. In addition, the Company's Corporate Disclosure Policy and Code of Ethics and Business Conduct Policy were updated and enhanced during 2007.

Limitations on the Effectiveness of Disclosure Controls and the Design of ICFR

The Company's management, including the CEO and CFO, do not expect that the Company's disclosure controls and procedures and ICFR will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable assurance that the control system objectives will be met. The likelihood of achievement is affected by limitations inherent in all internal control systems. These inherent limitations include the realities that judgements or decision-making can be faulty, and that breakdowns occur because of simple errors or mistakes. Controls can also be circumvented in numerous ways including collusion, overrides and deception. Another inherent limitation in any system of ICFR is the increasing complexity of GAAP. With the changing standards, growing rules-based guidance and interpretations, increasing abundance of Canadian, U.S. and International standards and the varying interpretations of GAAP by professional accountants and regulatory authorities it is possible that the judgments and interpretations made by the Company may differ from that of others. In addition to the inherent limitations, the design of a control system must reflect that there are resource constraints, and the expected benefit of controls must be considered relative to the expected costs. Due to inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Further, no evaluation of controls can provide absolute assurance that all control issues within a company will be detected.

Other

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Outstanding Share Data

As at March 17, 2008, there were 26,445,529 common shares and 254,068 share options outstanding. Of the options outstanding, 183,334 are currently exercisable into common shares.

Other Information

Additional information relating to the Company, including the Annual Information Form (AIF), is filed on SEDAR at www.sedar.com.

Reconciliation Schedules

Reconciliation of Net Income to EBITDA

The following table reconciles quarterly net income in accordance with GAAP to EBITDA.

(in thousands of dollars)	Dec 31/07 $	Sep 30/07 $	Jun 30/07 $	Mar 31/07 $	12 Months Dec 31/07 $
Net income from continuing operations	**2,766**	**2,546**	**2,126**	**77**	**7,515**
Amortization	**822**	**1,072**	**926**	**752**	**3,572**
Financing expense	**184**	**321**	**223**	**345**	**1,073**
Income tax provision (recovery)	**1,346**	**424**	**679**	**(11)**	**2,438**
EBITDA	**5,118**	**4,363**	**3,954**	**1,163**	**14,598**

(in thousands of dollars)	Dec 31/06 $	Sep 30/06 $	Jun 30/06 $	Mar 31/06 $	12 Months* Dec 31/06 $
Net income from continuing operations	1,488	1,611	957	1,295	5,351
Amortization	474	413	382	386	1,655
Financing expense (income)	(3)	11	(8)	47	47
Income tax provision	639	831	429	641	2,540
EBITDA	2,598	2,866	1,760	2,369	9,593

*Figures were compiled using the audited December 31, 2006 results and the unaudited interim March 31, 2006 results.

Reconciliation of 12 Months ended December 31, 2006

(in thousands of dollars, except per share amounts)	Dec 31/06 9 months $	Mar 31/06 3 months $	Dec 31/06 12 months* $
Operating Results			
Canadian revenue (note 1)	41,399	13,661	55,060
Manufacturing and selling costs	31,580	10,613	42,193
	9,819	3,048	12,867
General and administration	2,595	679	3,274
Amortization	1,269	386	1,655
Financing expense	—	47	47
Income before income taxes	5,955	1,936	7,891
Income taxes			
Current	2,177	687	2,864
Future	(278)	(46)	(324)
	1,899	641	2,540
Net income from continuing operations	4,056	1,295	5,351
Net income from discontinued operations	—	319	319
Net income	4,056	1,614	5,670
Basic earnings per share (note 2):			
From continuing operations	0.19	0.07	0.26
From discontinued operations	—	0.01	0.01
	0.19	0.08	0.27
Diluted earnings per share (note 2):			
From continuing operations	0.18	0.06	0.26
From discontinued operations	—	0.01	0.01
	0.18	0.07	0.27
Cash Flow			
Cash from operations (note 3)	5,299	2,010	7,309
Issue of common shares, net of transaction costs	1,590	1,974	3,564
Dividends paid	(2,081)	—	(2,081)
Additions to property, plant and equipment	(1,495)	(135)	(1,630)

* Figures were compiled using the audited December 31, 2006 results and the unaudited interim quarterly results.

Note 1: Includes revenue from the Company's foreign subsidiaries, Parabeam Industries BV (Netherlands) and VRB & Associates SRL (Barbados).

Note 2: 12 month basic and diluted earnings per share do not total to amounts per the annual and quarterly results due to the timing of the calculation.

Note 3: Cash from operations is defined as cash flows from operating activities before changes in non-cash working capital.

CANADA
DOLLAR

Management's Report

March 17, 2008

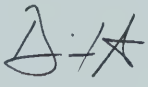
The Annual Report, including the consolidated financial statements, is the responsibility of the management of the Company. The consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it considers most appropriate in the circumstances. The significant accounting policies used are described in note 1 to the consolidated financial statements. The integrity of the information presented in the financial statements, including estimates and judgments relating to matters not concluded by year end, is the responsibility of management. Financial information presented elsewhere in this Annual Report has been prepared by management and is consistent with the information in the consolidated financial statements.

Management is responsible for the establishment and maintenance of systems of internal accounting and administrative controls which are designed to provide reasonable assurance that the financial information is accurate and reliable, and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities and for final approval of the annual consolidated financial statements. The Board appoints an Audit Committee consisting of unrelated, non-management directors that meets at least four times each year under a written mandate from the Board. The Audit Committee meets with management and with the independent auditors to satisfy itself that they are properly discharging their responsibilities, reviews the consolidated financial statements and the Auditors' Report, including the quality of the accounting principles and significant judgments applied, and examines other auditing and accounting matters. The independent auditors have full and unrestricted access to the Audit Committee, with and without management being present. The consolidated financial statements have been reviewed by the Audit Committee and approved by the Board of Directors of ZCL Composites Inc.

The consolidated financial statements have been audited by the Company's external auditors, Ernst & Young LLP, Chartered Accountants, in accordance with generally accepted auditing standards on behalf of the shareholders. The Auditors' Report outlines the nature of their examination and their opinion on the consolidated financial statements of the Company.

Venence G. Côté
President and Chief Executive Officer



Darin R. Coutu, CA
Chief Financial Officer

Auditors' Report

To the Shareholders of ZCL Composites Inc.

We have audited the consolidated balance sheets of ZCL Composites Inc. as at December 31, 2007 and 2006 and the consolidated statements of shareholders' equity and comprehensive income (loss), income, and cash flows for the twelve month period ended December 31, 2007 and the nine month period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the twelve month period ended December 31, 2007 and the nine month period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

Edmonton, Canada
March 17, 2008

Ernst & Young LLP
Chartered Accountants

Consolidated Balance Sheets

As at December 31 (in thousands of dollars)	2007 $	2006 $
Assets		
Current		
Cash and cash equivalents	**2,033**	7,802
Accounts receivable	**16,595**	7,483
Inventories [note 3]	**16,218**	10,807
Prepaid expenses	**661**	142
Future tax assets [note 14]	**416**	11
	35,923	26,245
Property, plant and equipment [note 4]	**20,749**	10,588
Deferred development costs [note 5]	**819**	1,050
Intangible assets [note 6]	**8,995**	687
Goodwill [note 7]	**27,327**	1,991
Other assets	**555**	854
	94,368	41,415
Liabilities and Shareholders' Equity		
Current		
Bank indebtedness [note 8]	**150**	—
Accounts payable and accrued liabilities	**10,886**	5,465
Accrued pension liability [note 9]	**284**	—
Income taxes payable	**511**	1,398
Deferred revenue	**1,490**	896
Current portion of long term debt [note 10]	**1,960**	—
Future tax liabilities [note 14]	—	180
	15,281	7,939
Future tax liabilities [note 14]	**4,623**	1,228
Long term debt [note 10]	**6,978**	—
	26,882	9,167
Commitments and contingencies [note 15]		
Shareholders' equity		
Share capital [note 12]	**62,190**	23,135
Contributed surplus [note 12]	**449**	452
Accumulated other comprehensive loss	**(8,729)**	—
Retained earnings	**13,576**	8,661
	67,486	32,248
	94,368	41,415

See accompanying notes

On behalf of the Board:

Director

Director

Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss)

(in thousands of dollars)	Common Shares	Share Capital $	Contributed Surplus $	Accumulated Other Comprehensive Loss $	Retained Earnings $	Total $	Comprehensive Income (Loss) $
Balance, December 31, 2006	**21,681,445**	**23,135**	**452**	**—**	**8,661**	**32,248**	**—**
Common shares issued for cash [note 12]	**4,000,000**	**38,147**	**—**	**—**	**—**	**38,147**	**—**
Shares issued on exercise of options [note 12]	**281,334**	**282**	**—**	**—**	**—**	**282**	**—**
Warrants exercised for cash [note 12]	**482,750**	**459**	**—**	**—**	**—**	**459**	**—**
Stock-based compensation [note 13]	**—**	**—**	**164**	**—**	**—**	**164**	**—**
Reclassification of fair value of stock options and warrants previously expensed [note 12]	**—**	**167**	**(167)**	**—**	**—**	**—**	**—**
Translation of self-sustaining foreign operations	**—**	**—**	**—**	**(8,729)**	**—**	**(8,729)**	**(8,729)**
Dividends [note 11]	**—**	**—**	**—**	**—**	**(2,600)**	**(2,600)**	**—**
Net income	**—**	**—**	**—**	**—**	**7,515**	**7,515**	**7,515**
Balance, December 31, 2007	**26,445,529**	**62,190**	**449**	**(8,729)**	**13,576**	**67,486**	**(1,214)**
Balance, March 31, 2006	20,118,953	21,397	348	—	6,686	28,431	—
Shares issued on exercise of options [note 12]	364,065	451	—	—	—	451	—
Warrants exercised for cash [note 12]	1,198,427	1,139	—	—	—	1,139	—
Stock-based compensation [note 13]	—	—	252	—	—	252	—
Reclassification of fair value of stock options and warrants previously expensed [note 12]	—	148	(148)	—	—	—	—
Dividends [note 11]	—	—	—	—	(2,081)	(2,081)	—
Net income	—	—	—	—	4,056	4,056	4,056
Balance, December 31, 2006	21,681,445	23,135	452	—	8,661	32,248	4,056

See accompanying notes

Consolidated Statements of Income

(in thousands of dollars, except per share amounts)	Twelve Months December 31/07 $ [note 1]	Nine Months December 31/06 $ [note 1]
Revenue	**104,783**	41,399
Manufacturing and selling costs [note 13]	**82,482**	31,580
	22,301	9,819
General and administration [note 13]	**7,703**	2,595
Amortization [note 19]	**3,572**	1,269
Financing expense [note 19]	**1,073**	—
	12,348	3,864
Income before income taxes	**9,953**	5,955
Income tax expense (recovery) [note 14]		
Current	**3,693**	2,177
Future	**(1,255)**	(278)
	2,438	1,899
Net income	**7,515**	4,056
Earnings per share [note 16]		
Basic	**$0.29**	$0.19
Diluted	**$0.29**	$0.18

See accompanying notes

Consolidated Statements of Cash Flows

(in thousands of dollars)	Twelve Months December 31/07 $ [note 1]	Nine Months December 31/06 $ [note 1]
Cash Flows from Operating Activities		
Net income	**7,515**	4,056
Add items not affecting cash:		
Amortization expense	**3,572**	1,269
Future tax recovery	**(1,255)**	(278)
Gain on sale of equipment	**(32)**	—
Stock based compensation expense [note 13]	**164**	252
Pension expense [note 9]	**148**	—
	10,112	5,299
Changes in non-cash working capital:		
Decrease (increase) in accounts receivable	**(2,886)**	5,268
Decrease (increase) in inventories	**3,430**	(1,385)
Decrease (increase) in prepaid expenses	**(110)**	168
Increase (decrease) in accounts payable and accrued liabilities	**104**	(370)
Increase in income taxes payable	**212**	977
Decrease in deferred revenue	**(1,139)**	—
Cash flows from operating activities	**9,723**	9,957
Cash Flows from Financing Activities		
Issue of common shares, net of transaction costs [note 12]	**38,091**	1,590
Net advances (repayment) of bank indebtedness	**150**	(114)
Dividends [note 11]	**(2,600)**	(2,081)
Net cash received on long term debt	**20,000**	—
Repayment of long term debt	**(11,000)**	—
Cash flows (used in) from financing activities	**44,641**	(605)
Cash Flows from Investing Activities		
Business acquisitions, including bank indebtedness assumed and repaid [note 2]	**(55,659)**	—
Purchase of property, plant and equipment	**(3,791)**	(1,495)
Other	**22**	(55)
Cash flows used in investing activities	**(59,428)**	(1,550)
Foreign exchange loss on cash held in foreign currency	**(705)**	—
Increase (decrease) in cash and cash equivalents	**(5,769)**	7,802
Cash and cash equivalents, beginning of the period	**7,802**	—
Cash and cash equivalents, end of the period	**2,033**	7,802

See accompanying notes

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

1. Significant Accounting Policies

ZCL Composites Inc. (the "Company") manufactures and distributes liquid storage systems, including fibreglass underground and aboveground storage tanks, fibreglass-lined steel tanks, steel tanks, and related products and accessories. The Company also produces and markets fibreglass lining systems and a three dimensional glass fabric material.

Generally Accepted Accounting Principles

The Company's financial statements have been prepared following Canadian generally accepted accounting principles. The measurement of certain assets and liabilities is dependent upon future events whose outcome will not be fully known until future periods. Therefore the preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results may vary from those estimated.

In particular, the amounts recorded for amortization of property, plant and equipment, deferred development costs and intangible assets are based on estimates of the remaining useful lives of such assets. Furthermore, the provision for warranty claims and self-insured liabilities is based on past experience and the most currently available information regarding warranty costs and incurred claims. These estimates and those related to the cash flows used to assess the potential impairment of property, plant and equipment, deferred development costs, intangible assets, and goodwill as well as those used to estimate the fair value of stock-based compensation, income tax assets and liabilities and financial instruments are subject to measurement uncertainty and the impact on the financial statements of future periods could be material. Such estimates and assumptions have been made using careful judgments, which in management's opinion, are within reasonable limits of materiality and conform to the significant accounting policies summarized below.

Basis of Presentation

The consolidated financial statements include the accounts of ZCL Composites Inc. and its wholly-owned subsidiary companies. Principal operating subsidiaries include Triple M Fiberglass Mfg. Ltd., Parabeam Industries BV, Radigan Insurance Inc., VRB & Associates SRL, and Xerxes Corporation ("Xerxes"). All significant intercompany transactions and balances have been eliminated in the preparation of these consolidated financial statements.

During 2006, the Company changed its fiscal year-end from March 31 to December 31. Accordingly, these financial statements present the results of operations and cash flows for the twelve month period ended December 31, 2007 and comparative figures are for the nine month period ended December 31, 2006.

Cash and Cash Equivalents

Cash and cash equivalents consist of all cash balances and highly liquid investments with an original maturity of three months or less. Cash equivalents are invested in money market funds and are carried at fair value.

Inventories

Raw materials are valued at the lower of cost, determined on an average cost basis, and replacement cost. Work in progress and finished goods are valued at the lower of manufacturing cost and net realizable value on a specific item basis. Manufacturing cost includes the cost of raw materials, direct labour costs, and applicable production overheads.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is computed using the declining balance method at the following annual rates:

Buildings	4%
Land improvements	10%
Manufacturing equipment	10%
Office equipment	20%
Automotive equipment	30%

Amortization of leasehold improvements is computed using the straight-line method over the term of the lease. Amortization of capital work-in-progress commences upon substantial completion of the project and commencement of the asset's service life.

Deferred Development Costs

Research and development costs are expensed as incurred. Certain development costs are deferred when criteria established by the Canadian Institute of Chartered Accountants with respect to development costs are met, and amortized over future periods commencing with commercial production of the product or process.

Deferred development costs are amortized on a straight-line basis over the estimated expected life of the related products subject to a maximum period of five years. Unamortized deferred development costs are regularly reviewed for recoverability based on projections of future revenues less relevant costs. The unamortized amount is written-off when the criteria for deferral are no longer met or written-down when the unamortized balance exceeds the amounts of deferred development costs that can be reasonably regarded as recoverable.

Intangible Assets

Intangible assets with finite lives are recorded at cost less accumulated amortization. Amortization is computed using the straight-line method over the following periods:

Non-contractual customer relationships	estimated expected length of relationships
Brand	estimated expected life of brand
Licenses	term of licensing agreements
Patents	term of patent life
Customer order backlog	estimated expected life of backlog
Air permits	estimated expected life of permit
Non-patented technology	estimated expected life of related products

Non-contractual customer relationships are amortized over periods ranging from three to ten years, brand over ten years, licenses over periods ranging from three to nine years, patents over ten years, customer order backlog over three months, air permits over five years, and non-patented technology over five years.

Product certification and safety marks acquired in business acquisitions are indefinite-life intangible assets recorded at cost and are not amortized.

Impairment of Long-lived Assets

Long-lived assets of the Company include property, plant and equipment and intangible assets. These assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Impairment is recognized when the undiscounted cash flows from the assets exceeds the carrying value. An impairment loss is then measured at the amount that the carrying amounts exceed their fair value.

During the year, there were no events or changes in circumstances which indicated that the carrying amounts of long-lived assets may not be recoverable and no impairment loss was recognized.

Goodwill

Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair value of net identifiable assets acquired. Goodwill is not amortized but must be tested for impairment annually or more frequently when events or circumstances occur that would indicate that the carrying value may be impaired. Recoverability of goodwill is determined at the reporting unit level using a two-step approach. First, the carrying value of the reporting unit is compared to its fair value, which is determined based on discounted future cash flows. If the carrying value of the reporting unit exceeds its fair value, the second step is performed. In this step, the amount of impairment loss, if any, represents the excess of the carrying value of goodwill over its fair value and the loss is charged to income in the period in which it is incurred. For this step of the impairment test, the fair value of the goodwill is estimated in the same way as goodwill is determined in a business combination as the excess of the fair value of the reporting unit over the estimated fair value of its net identifiable assets.

Self-insured Liabilities

The Company self-insures certain risks related to pollution protection provided on certain product sales, general liability claims, health benefit claims and patent infringement through Radigan Insurance Inc., its captive insurance company. The provision for self-insured liabilities includes estimates of the costs of reported and expected claims based on estimates of loss using assumptions determined by a certified loss reserve analyst.

Employee Future Benefits

As a result of the Xerxes business acquisition described in note 2, the Company's consolidated financial statements now include a defined benefit pension plan, a defined contribution retirement benefit plan and a non-retirement employee benefit plan, as described below.

The Company has a noncontributory defined benefit pension plan for former employees of a previously closed plant facility of one of the Company's U.S.-based subsidiaries. The cost of the defined benefit pension is actuarially determined using the projected benefits method. For purposes of calculating the expected return on plan assets, those assets are valued at fair value. Accrued benefit obligations are discounted at the end of each period based on the rate at which obligations could be effectively settled, considering the timing of estimated future cash flows related to the plan. This rate is based on high-quality bond yields, after allowing for call and default risk. See note 9 for additional information.

The Company contributes to a defined contribution 401(k) retirement plan for all U.S. based employees meeting the plan requirements. The Company accounts for such contributions as an expense in the period in which the contributions are due. Total contribution expense recognized during the year ended December 31, 2007 was approximately $333,000.

The Company has self-insured the liability associated with providing health and welfare insurance benefits to its U.S.-based employees. The Company records an expense in the period in which eligible claims are presented for payment by its employees and third party claims administrator fees are presented for payment. The Company also accrues a liability for the anticipated obligation from health insurance claims not yet submitted based on expected claims experience calculated by the third party administrator. Adjustments to the liability are recorded in the period that actual claims experience is determined.

The Company also contributes to a defined contribution retirement plan for all Canadian based employees meeting the plan requirements. Under the plan, the Company matches employee contributions to a maximum of 4% of an employee's earnings. The Company accounts for such contributions as an expense in the period in which the contributions are made. Total contribution expense recognized in 2007 was $214,000 (2006 - $94,000).

Warranties

The Company generally warrants its products for a period of one year after sale, and for up to thirty years for corrosion, if the products are properly installed and used solely for storage of listed liquids. A number of component materials and parts are similarly warranted by their manufacturers, thereby offsetting the Company's exposure to warranty claims.

The Company's complete storage systems marketed under the Prezerver trademark carry an enhanced ten-year, insurance-backed warranty covering product replacement and pollution protection up to the limits of the policy. The Prezerver warranty is covered by insurance underwritten by a major international insurer for Prezerver storage systems installed before December 1, 2006. The Prezerver warranty for qualifying storage systems installed thereafter is insured through the Company's captive insurance company, Radigan Insurance Inc.

The Company provides for warranty obligations based on a review of products sold and historical warranty cost experience. Provisions for warranty costs are charged to manufacturing and selling costs and revisions to the estimated provision are charged to earnings in the period in which they occur.

Foreign Currency Translation

Transactions denominated in a foreign currency and financial statements of an integrated foreign subsidiary included in the consolidated financial statements are translated using the temporal method as follows: monetary items at the rate of exchange in effect at the balance sheet dates; non-monetary items at historical exchange rates; revenue and expense items at average exchange rates that produce substantially the same amounts that would have resulted had the transactions been translated on the dates they occurred; and amortization of assets at the same historical exchange rates as the assets to which they relate. Any resulting exchange gains or losses are included in income in the period incurred.

Two of the Company's principal operating subsidiaries, Xerxes Corporation and VRB & Associates SRL are self sustaining foreign operations. The financial statements of these subsidiaries are included in the consolidated financial statements translated using the current rate method. Under this method, all assets and liabilities are translated at the balance sheet date exchange rate, and revenue and expense items are translated at the average exchange rate for the period. The resulting exchange gains and losses are recorded in other comprehensive income (loss).

Revenue Recognition

Revenue from the sale of liquid storage systems and related products and accessories is recorded when persuasive evidence of an arrangement exists, the purchaser's price is fixed and determinable, collection is reasonably assured and ownership is effectively transferred to the purchaser. This normally occurs at the time of shipment of the product, customarily on a FOB-shipping basis. In circumstances where the customer chooses to temporarily store goods on the Company's premises but all other contract performance criteria have been met, revenue is recognized upon manufacturing completion. Amounts received as deposits are recorded as deferred revenue. Where final acceptance of products is specified by the customer, revenue is deferred upon manufacturing completion until all acceptance criteria have been met.

Stock-based Compensation

Stock options resulting in direct awards of shares to employees and non-employees are accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value of stock options and warrants at the date of grant or transfer is determined using an option pricing model and compensation expense is recognized over the vesting period of the stock options and warrants.

The Company uses the fair value method to account for specified stock-based compensation awards issued under the Company's Stock Appreciation Rights Plan ("SARs") and Executive Restricted Share Unit Plan ("RSUs) that call for settlement in cash. The Company records

compensation expense based on the market value of the Company's common shares for the outstanding RSUs and the difference between the market value of the Company's common shares and the value specified under the SARs plan, if any. Changes in the market value of the Company's common shares result in compensation for the SARs and RSUs being re-measured at each reporting period.

The Company's stock-based compensation, consisting of a stock option plan and warrants, stock appreciation rights and executive restricted share unit plans is more fully described in notes 12 and 13.

Income Taxes

The Company uses the liability method to account for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Earnings per Share

Basic earnings per share is computed based on the weighted average number of common shares outstanding during the year. Diluted earnings per share is computed using the treasury stock method, which assumes that the cash that would be received on the exercise of options and warrants is applied to purchase shares at the average price during the period and that the difference between the shares issued upon their exercise and the number of shares obtainable under this computation, on a weighted average basis, is added to the number of shares outstanding. Anti-dilutive amounts are not considered in computing diluted earnings per share.

Changes in Significant Accounting Policies

a) Financial Instruments, Equity and Comprehensive Income (Loss)

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation; Section 3865, Hedges; Section 1530, Comprehensive Income; and Section 3251, Equity, prospectively without restatement of prior periods.

Section 1530 provides guidance on the reporting and presentation of comprehensive income. Comprehensive income is the change in equity of an enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Other comprehensive income comprises revenues, expenses, gains and losses that are recognized in comprehensive income, but are excluded from net income calculated in accordance with GAAP. The adoption of this standard had no impact on the Company's retained earnings as at January 1, 2007. Subsequent to the adoption of this new standard, the Company recorded unrealized losses of $8.7 million on the translation of self-sustaining foreign operations acquired during the year in other comprehensive income (loss).

Under Section 3855, financial assets and liabilities are classified as either held for trading, available-for-sale, loans and receivables, investments held to maturity, and other financial liabilities. Financial assets classified as held for trading and available-for-sale are measured on the balance sheet at fair value. Subsequent change in the fair value of held for trading financial assets is recognized into net income immediately. Changes in the fair value of financial assets available-for-sale are recorded in comprehensive income until the investment is derecognized or impaired at which time amounts would be recorded to net income. Loans and receivables, investments held to maturity and other financial liabilities are measured on the balance sheet at amortized cost. All derivative instruments of the Company, including those embedded in other financial instruments, are recorded at fair value and classified as held for trading.

On adopting Section 3855 and 3861, the Company classified its financial assets and liabilities of cash and cash equivalents, accounts receivable, other assets, and accounts payable and accrued liabilities and bank indebtedness as held for trading financial instruments. The adoption of the new standards did not have a material impact on the presentation of the financial statements. The Company classified long term debt as other financial liabilities. The Company has not recorded any financial instruments as available-for-sale, loans or receivables, or held to maturity investments during the year.

For financial assets and liabilities classified as other, the transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are recorded as part of the fair value initially recognized for that financial instrument. These costs are expensed using the effective interest method and recorded within interest expense.

Prior to the adoption of the new standards, derivatives embedded in other financial instruments were not accounted for separately from the host instrument. On adopting the new standards, the Company performed a review of all of its contracts to identify any embedded derivatives. No significant embedded derivatives were identified.

Section 3865 replaces and expands prior guidance on hedging relationships by prescribing when and how hedge accounting may be applied. Application of hedge accounting is optional. Adoption of the new standard had no impact on the financial statements. During the year, the Company entered into foreign currency forward contracts, the price of which were denominated in U.S. dollars. Such derivative contracts, not accounted for as hedges, are marked to market, and any changes in the market value are recorded in income or expense when the changes occur. As of December 31, 2007, there were no outstanding derivative contracts as they were all settled within the year.

Section 3251 requires separate presentation of changes in equity for the period from net income, other comprehensive income (loss), retained earnings, contributed surplus, share capital and reserves and separate presentation of the components of equity, including retained earnings, accumulated other comprehensive income (loss), contributed surplus, share capital and reserves. The adoption of the new standard did not have a material impact on the presentation of equity of the Company.

b) Accounting Changes

Effective January 1, 2007, the Company adopted CICA Section 1506, Accounting Changes. The new standard allows for voluntary changes in an accounting policy only when the changes result in the financial statements providing reliable and more relevant information, requires a change in accounting policy to be applied retroactively unless impracticable, requires prior period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. It includes the disclosure, on an interim and annual basis, of a description and the impact on the Company's financial results of any new primary source of GAAP that has been issued but is not yet effective. The adoption of the new standard did not have an impact on the Company's financial position or on the results of its operations.

Recent Accounting Pronouncements

In October 2006, the CICA issued Section 1535, Capital Disclosures. The new standard requires disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the Company's objectives, policies and processes for managing capital. These recommendations are effective for the Company's interim and annual reporting periods beginning January 1, 2008. The Company expects there will be incremental disclosures required regarding the Company's capital and how it is managed.

The CICA also issued Section 3862, Financial Instruments – Disclosure and 3863, Financial Instruments – Presentation in October 2006. These Sections will effectively replace existing Section 3861, Financial Instruments – Disclosure and Presentation effective for the Company's interim and annual reporting periods beginning January 1, 2008. Section 3862 requires disclosures by class of financial instruments that enable users to evaluate the significance of financial instruments for the Company's financing position and performance.

Disclosures are also required of qualitative and quantitative information that enables users of financial statements to evaluate the nature and extent of the Company's exposure to the risks arising from financial instruments, specifically credit risks, liquidity risks and market risks. Quantitative disclosures must also include a sensitivity analysis for each type of market risk the Company is exposed to and how net income and other comprehensive income would be affected. Section 3863 carries forward the presentation requirements of 3861 already adopted by the Company. As a result, the Company expects the only effect of the new standards will be additional disclosures regarding the significance of financial instruments for the Company's financing position and performance and the nature, extent and management of risks arising from financial instruments to which the Company is exposed.

In June 2007, the CICA issued Section 3031, Inventories. The new standard requires inventories to be measured at the lower of cost and net realizable value and provides guidance on the determination of cost, including the allocation of overheads and other costs to inventories. The standard also requires the consistent use of either the FIFO (first in, first out) or weighted average cost formula to measure inventories and the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. Disclosure is required for the amount of inventories recognized as an expense, as well as any inventory write-down or reversals. The standard is effective for the Company's interim and annual reporting periods beginning January 1, 2008. The Company does not expect the new standard will have a material impact on the Company's net income.

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The new pronouncement establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of adopting the standard.

In February 2008, Canada's Accounting Standards Board confirmed January 1, 2011 as the official changeover date for publicly listed Canadian companies to start reporting under International Financial Reporting Standards ("IFRS"). As the International Accounting Standards Board currently has projects underway that should result in new pronouncements and the Canadian convergence initiative is on-going as of the date of these statements, the Company has not yet assessed the impact of the ultimate adoption of IFRS.

2. Business Acquisitions

XAHC, Inc.

On February 22, 2007, the Company purchased 100% of the shares of XAHC, Inc. ("XAHC"), the sole shareholder of Xerxes, for cash consideration of U.S.D. $39.6 million (CDN $46.3 million) including acquisition costs. XAHC and Xerxes are based in the United States and are involved in the design, manufacture and marketing of fibreglass reinforced plastic structural products for the petroleum, chemical, water and wastewater industries.

The business acquisition was accounted for using the purchase method and the consolidated financial statements include the results of operations from February 22, 2007. Management concluded that the purchase price allocation was substantially complete as of June 30, 2007.

Subsequently, additional information related to income taxes and pension liabilities was identified that resulted in adjustments to certain assigned fair values at year end. The adjustments identified resulted in a decrease to other long term assets of $474,000 and future tax liabilities of $589,000, an increase to non-cash working capital and accrued pension liability of $315,000 and $168,000 respectively for a net decrease to goodwill of $262,000.

The following table summarizes the fair value of acquired assets and liabilities after final adjustments:

(in thousands of dollars)	$
Bank indebtedness, net	(6,343)
Non-cash working capital	10,712
Property, plant and equipment	5,946
Non-contractual customer relationships	6,934
Customer order backlog	306
Brand	3,418
Air permits	357
International licenses	780
Accrued pension liability	(168)
Future tax liabilities	(5,694)
Goodwill	30,057
Net assets acquired	46,305

Intangible assets are being amortized using the straight line method over the following terms:

Non-contractual customer relationships	3 to 10 years
Customer order backlog	3 months
Brand	10 years
Air permits	5 years
International licenses	9 years

The minimum lease commitments under all non-cancelable operating leases for production facilities, office space and equipment acquired were approximately $6.7 million. Prior to the acquisition, the Company had a license agreement with Xerxes which gave the Company exclusive rights to manufacture and sell products in certain geographic areas. Aggregate annual royalty payments under the agreement were $300,000 of which $43,333 was payable by the Company at the date of the acquisition.

Cara Concrete Products Ltd.

On August 9, 2007, the Company purchased certain property, plant and equipment from Cara Concrete Products Ltd. ("CARA") and on October 5, 2007 acquired the remaining operating assets of CARA for a combined cash consideration of $2,960,000. Acquisition costs of $51,000 were incurred in respect of the purchase. The business acquisition was accounted for using the purchase method and the consolidated financial statements include the results of operations of CARA from October 5, 2007.

The following table summarizes the fair value of acquired assets:

(in thousands of dollars)	$
Non-cash working capital	79
Property, plant and equipment	2,932
Net assets acquired	3,011

3. Inventories

(in thousands of dollars)	2007 $	2006 $
Raw materials	**7,865**	5,420
Work in progress	**2,483**	748
Finished goods	**5,870**	4,639
	16,218	10,807

4. Property, Plant and Equipment

(in thousands of dollars)	2007 Cost $	2007 Accumulated amortization $	2006 Cost $	2006 Accumulated amortization $
Land	**2,983**	**—**	293	—
Buildings	**5,205**	**1,209**	3,160	1,081
Leasehold and land improvements	**1,659**	**298**	572	182
Manufacturing equipment	**19,275**	**8,351**	14,230	7,427
Office equipment	**2,743**	**1,521**	2,183	1,290
Automotive equipment	**463**	**200**	274	144
	32,328	**11,579**	20,712	10,124
Net book value		**20,749**		10,588

Amortization expense includes $1,600,000 (2006 - $801,000) for the amortization of property, plant and equipment. Capital work-in-progress of $972,000 is included in manufacturing and office equipment (2006 - $260,000 is included in buildings) and is not subject to amortization.

5. Deferred Development Costs

(in thousands of dollars)	2007 $	2006 $
Cost	**1,652**	3,798
Accumulated amortization	**833**	2,748
Net book value	**819**	1,050

Deferred development costs include $26,000 (2006 - $26,000) of scientific research and development tax credits received or receivable. Deferred development costs of $13,000 (2006 - $nil) were incurred during the year. Amortization expense includes $244,000 (2006 - $89,000) for the amortization of deferred development costs. The total amount of research and development charged to expense for the year is not separately identifiable, as such costs are only tracked for development projects that are deferred. Development costs that were fully amortized during the period ended December 31, 2006 were relieved from the accounts at December 31, 2007.

6. Intangible Assets

(in thousands of dollars)	2007 Cost $	2007 Accumulated amortization $	2006 Cost $	2006 Accumulated amortization $
Intangible assets subject to amortization:				
Non-contractual customer relationships	**5,970**	**914**	125	94
Brand	**2,873**	**239**	—	—
Licenses	**1,177**	**581**	521	491
Patents	**369**	**80**	369	43
Customer order backlog	**264**	**264**	20	20
Air permits	**300**	**50**	—	—
Non-patented technology	**1,944**	**1,944**	1,944	1,814
	12,897	**4,072**	2,979	2,462
Intangible assets not subject to amortization:				
Product certification and safety marks	**170**	—	170	—
	13,067	**4,072**	3,149	2,462
Net book value		**8,995**		687

Amortization expense includes $887,000 (2006 - $35,000) for the amortization of non-contractual customer relationships, $260,000 (2006 - $nil) for brand, $96,000 (2006 - $25,000) for licenses, $37,000 (2006 - $28,000) for patents, $264,000 (2006 - $nil) for customer order backlog, $54,000 (2006 - $nil) for air permits, and $130,000 (2006 - $291,000) for non-patented technology.

7. Goodwill

(in thousands of dollars)	2007 $	2006 $
Balance, beginning of the period	**1,991**	1,991
Goodwill from business acquisition [note 2]	**30,057**	—
Translation adjustment	**(4,721)**	—
Balance, end of the period	**27,327**	1,991

8. Bank Indebtedness

Bank indebtedness consists of amounts drawn under available credit facilities and cheques issued in excess of related bank balances. The Company has a revolving operating credit facility to a maximum $15,250,000 (2006 - $10,250,000) for working capital and other general corporate purposes. The credit facility is payable on demand and expires on July 29, 2008. Depending on the form under which the credit facility is accessed, rates of interest vary between Canadian prime plus zero or 25 basis points,U.S. base rate plus zero or 25 basis points, or Canadian bankers acceptances with terms of 1, 2, 3, or 6 months, subject to availability plus 150 or 175 basis points. Interest rates are adjusted quarterly based on certain financial performance indicators of the Company. At December 31, 2007 the effective interest rate on this credit facility was prime plus 25 basis points (6.25%; 2006 – 6.25%).

The Company has pledged as general collateral for advances under the operating credit facility and the term loan (see note 10) a general security agreement on present and future assets, guarantees from each present and future direct and indirect subsidiary of the Company supported by a first registered security over all present and future assets, and pledge of shares.

The Company is required to meet certain covenants as a condition of the debt agreements. At December 31, 2007, the Company was in compliance with all restrictive covenants.

9. Accrued Pension Liability

The pension liability relates to a noncontributory defined benefit pension plan (the "Plan") for former full-time union employees of a previously closed plant facility of Xerxes. The employment of all participants in the Plan was terminated in 2001 and their benefit accrual fully vested. The Plan assets and the accrued benefit obligation are measured on December 31 each year.

In November 2006, trustees of the Plan approved a process that was expected to result in full settlement of plan obligations by the end of 2007. As part of the on-going settlement process, participants will have the option of receiving either a lump sum payment or a guaranteed annuity contract that would be purchased by the plan from a private insurance company. As part of the approved settlement process, the Plan's investments were all converted to cash and cash equivalents in the form of money market fund investments in December 2006. Settlement of the plan obligations is now expected to occur by the end of 2008.

The Company will fully fund the existing shortfall of the Plan upon final settlement. The expected benefit payments to participants from the Plan for 2008 are approximately $98,000, assuming no lump sum payments, or $614,000, assuming approximately one half of the participants opt for lump sum payments.

Information regarding the Plan is summarized as follows and reflects management's best estimates of the accrued benefit obligation based on assumptions consistent with the approved settlement process.

(in thousands of dollars)	2007 $	2006 $
Change in fair value of plan assets during the period		
Fair value of plan assets, upon acquisition of Xerxes	**2,178**	—
Actual return on plan assets	**74**	—
Employer contributions	**—**	—
Benefits paid	**(90)**	—
Translation adjustment	**(346)**	—
Fair value of plan assets, end of the period	**1,816**	—
Change in accrued benefit obligation during the period		
Accrued benefit obligation, upon acquisition of Xerxes	**2,346**	—
Interest cost	**92**	—
Actuarial loss	**130**	—
Benefits paid	**(90)**	—
Translation adjustment	**(378)**	—
Accrued benefit obligation, end of the period	**2,100**	—
Accrued pension liability	**(284)**	—

Weighted-average actuarial assumptions used to determine obligations at December 31 and periodic benefit cost for the period then ended:

Discount rate	4.59%	—
Expected return on assets	5.50%	—
Rate of compensation increase	N/A	—

The discount rate used to determine the accrued benefit obligation was 5.22% and the expected return on assets rate used was 5.50% at February 22, 2007. Pension expense increases as the expected return on assets rate decreases. A decrease in the expected return on plan assets of 25 basis points (from 5.50% to 5.25%) would increase the expected 2008 pension expense by $3,900. The pension liability and future pension expense both increase as the discount rate is reduced. Lowering the discount rate by 25 basis points (from 4.59% to 4.34%) would increase the 2007 pension expense and liability at December 31, 2007 by $49,000.

An expense of $148,000 relating to the increase in the accrued pension liability since acquisition was recorded in general and administration in the consolidated statements of income.

10. Long Term Debt

(in thousands of dollars)	2007 $	2006 $
Term loan	8,938	—
Less current portion	1,960	—
	6,978	—

The term loan bears interest at an annualized rate of Canadian bank prime plus 25 or 50 basis points, adjusted quarterly based on certain financial performance indicators of the Company. The term loan requires quarterly repayments of $500,000, with the balance due on maturity on February 28, 2009. The Company is also subject to mandatory prepayments of outstanding loan principal equal to 100% of any net proceeds of asset disposal and net proceeds from any insurance proceeds received by the Company. Transaction costs directly attributable to the term loan are recorded as part of the fair value of the debt and reflected in the measurement of the fair value of the obligation using the effective interest method.

The Company's operating and term credit facilities are utilized as required throughout the year. Both credit facilities bear interest at floating rates and changes in interest rates would affect the Company's exposure to interest rate risk in servicing the facilities.

11. Dividends

During the year ended December 31, 2007 dividends in the amount of $2,600,000 ($0.10 per common share for all shareholders of record on March 28, 2007) were paid. In the period ended December 31, 2006, dividends in the amount of $2,081,000 ($0.10 per common share for all shareholders of record on June 26, 2006) were paid.

12. Share Capital and Contributed Surplus

Share Capital and Contributed Surplus

a) Authorized

Unlimited number of common shares with no par or stated value

b) Issued and Outstanding

	Share Capital				Contributed Surplus	
	2007		2006		2007	2006
	Shares		Shares			
(in thousands of dollars)	#	$	#	$	$	$
Balance, beginning of the period	**21,681,445**	**23,135**	20,118,953	21,397	**452**	348
Common shares	**4,000,000**	**38,147**	—	—	—	—
Stock options exercised for cash	**281,334**	**282**	364,065	451	—	—
Warrants exercised for cash	**482,750**	**459**	1,198,427	1,139	—	—
Reclassification of fair value of stock options and warrants previously expensed	—	**167**	—	148	**(167)**	(148)
Stock-based compensation expense	—	—	—	—	**164**	252
Balance, end of the period	**26,445,529**	**62,190**	21,681,445	23,135	**449**	452

On February 13, 2007 the Company completed a "bought deal" private placement of subscription receipts with a syndicate of underwriters whereby the underwriters purchased as principals 4,000,000 subscription receipts at a price of $10.00 per subscription receipt for total gross proceeds of $40.0 million. After deducting expenses of the offering of $2,650,000 ($1,853,000 net of taxes), net cash proceeds of $37,350,000 were received. Each holder of subscription receipts automatically acquired one common share of the Company (4,000,000 shares were issued) in exchange for every one subscription receipt held without the payment of any additional consideration upon closing of the XAHC/Xerxes acquisition described in note 2. The issued shares were subject to trading restrictions for a four-month period subsequent to issuance.

During the year, the amount credited to share capital related to options and warrants exercised included $72,000 (2006 - $45,000) for options and $95,000 (2006 - $103,000) for warrants in respect of compensation expense previously included in contributed surplus.

Stock Options

On August 9, 2006 the Company's shareholders approved the replacement of its existing share option plan with a new stock option plan. Under the Company's new stock option plan, options to purchase common shares may be granted by the Board of Directors to directors, employees, and persons who provide management or consulting services to the Company. All options issued under the previous share option plan were deemed to be issued under the new plan on the same terms and conditions as existed under the old plan. The shareholders authorized the number of options that may be granted under the new plan to be not more than 10% of the issued and outstanding shares of the Company on a non-diluted basis provided that the number of listed securities that may be reserved for issuance under stock options granted to any one individual or insiders of the Company not exceed 5% of the Company's issued and outstanding securities. The exercise price of options granted cannot be less than the closing market price of the Company's common shares on the last

trading day preceding the grant. The Company's Board of Directors may determine the term of the options but such term cannot be greater than 5 years from the date of issuance. Vesting terms, eligibility of qualifying individuals to receive options and the number of options issued to individual participants are determined by the Company's Board of Directors. The plan has no cash or equity settlement features. Options generally expire 90 days from the date on which a participant ceases to be a director, officer, employee, management company employee or consultant of the Company.

The Company has 254,068 (2006 – 498,002) options outstanding, which expire on dates between May 2009 and December 2012. The following table presents the changes during and the options outstanding at the end of each of the fiscal years:

	2007		2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
	#	$	#	$
Balance, beginning of the period	**498,002**	**1.69**	812,067	1.31
Granted	**37,400**	**10.14**	50,000	4.55
Exercised	**(281,334)**	**1.00**	(364,065)	1.24
Expired	—	—	—	—
Balance, end of the period	**254,068**	**3.70**	498,002	1.69

	2007			
	Options Outstanding		Options Exercisable	
Exercise Price $	Shares #	Weighted Average Remaining Contractual Life in Years	Shares #	Weighted Average Exercise Price $
1.40	**100,001**	**1.40**	**100,001**	**1.40**
2.90	**66,667**	**2.92**	**33,333**	**2.90**
4.55	**50,000**	**3.47**	**50,000**	**4.55**
10.14	**37,400**	**4.93**	**—**	**10.14**
1.40 – 10.14	**254,068**	**3.25**	**183,334**	**2.53**

	2006			
	Options Outstanding		Options Exercisable	
Exercise Price $	Shares	Weighted Average Remaining Contractual Life in Years	Shares #	Weighted Average Exercise Price $
0.95	250,000	0.87	250,000	0.95
1.40	131,335	2.40	54,667	1.40
2.90	66,667	3.92	—	2.90
4.55	50,000	4.50	50,000	4.55
0.95 – 4.55	498,002	2.05	354,667	1.53

Warrants

As part of a private placement in September 2002, the Company issued 3,684,211 Performance Warrants ("Warrants"). One-half of these Warrants were segregated, and approved by the shareholders at the Annual General and Special Meeting of Shareholders on August 18, 2003, for transfer to senior management of the Company. Each Warrant entitled the holder to subscribe for one common share at a price of $0.95 for a period of up to five years subject to a performance vesting provision. The Warrants vested at one-third intervals upon the weighted-average trading price of common shares reaching thresholds, for a period of twenty trading days, of $1.90, $2.85 and $3.80 per common share. The first two thresholds were reached during the fiscal year ended March 31, 2005; the third vesting threshold was reached in the fiscal period ended December 31, 2006 and the remaining 1,228,070 unvested warrants vested. All remaining warrants were exercised during the year ended December 31, 2007.

	2007		2006	
	Warrants #	**Exercise Price** $	**Warrants** #	**Exercise Price** $
Balance, beginning of the period	**482,750**	**0.95**	1,681,177	0.95
Exercised	**(482,750)**	**0.95**	(1,198,427)	0.95
Expired	**—**	**—**	—	—
Balance, end of the period	**—**	**—**	482,750	0.95

13. Stock-based Compensation

The Black-Scholes model, used by the Company to calculate the values of options and warrants, as well as other currently accepted option valuation models, were developed to estimate the fair value of freely-tradeable, fully-transferable options and warrants without vesting restrictions. These models require subjective assumptions, including future share price volatility and expected time until exercise, which affect the calculated values. The options and warrants contemplated by the Black-Scholes model differ significantly from the stock options granted and warrants transferred by the Company. Accordingly, management believes that these models do not necessarily provide a reliable single measure of the fair values of the stock options granted and warrants transferred by the Company.

Stock Options Granted

The Company uses the fair value method of accounting for all stock options granted to employees. During the fiscal period ended December 31, 2007, the Company granted 37,400 stock options with exercise prices at the market share price on the grant date (December 31, 2006 – granted 50,000 options with exercise prices at the market price on the grant date). Stock-based compensation expense of $120,000 (December 31, 2006 - $131,000) and $44,000 (December 31, 2006 - $121,000) is recorded in manufacturing and selling costs and general and administration costs respectively in the consolidated statements of income.

The following estimated fair values of stock options granted at market during the year were determined, at the date of the grant, using the Black-Scholes option pricing model with the following weighted-average assumptions:

Weighted-average fair value	$4.08
Risk-free interest rate (%)	3.88
Expected hold period to exercise (years)	4.0
Volatility in the price of the Company's' shares (%)	50.0
Dividend yield (%)	1.0

Prior to adopting the fair value method of accounting for share options granted and warrants transferred to employees, the Company had granted or transferred share options and warrants with exercise prices in excess of the market share price on the grant or exercise date to employees. Pro forma earnings per share, had compensation expense been recognized based on the fair value as at the date of the grant or transfer of the options granted and warrants transferred to employees, is the same as the reported basic and diluted earnings per share for the periods ended December 31, 2007 and 2006.

Stock Appreciation Rights

On December 3, 2007 the Company's Board of Directors approved a Stock Appreciation Rights Plan where SARs may be granted to Directors, officers and employees of the Company at the Board's discretion. Each SAR entitles the holder to the cash amount for the difference between the value specified under the Plan and the market value of the Company's common shares on the exercise date. The rights vest equally over a three year period and expire at the end of 2011. There were 230,250 SARs granted and outstanding and not vested at December 31, 2007. Compensation expense of $4,200 was recorded relating to SARs during 2007.

Restricted Share Units

On December 3, 2007 the Company's Board of Directors approved an Executive Restricted Share Unit Plan where each designated executive receives an annual grant of RSUs as part of their compensation at the Board's discretion. Each RSU represents one notional common share that entitles the participant to an equivalent cash amount. The RSUs granted are generally scheduled for payout after five years and vest upon attainment of performance targets or at the later of the end of five years following the year of the date of grant. There were 21,000 RSUs granted and outstanding and not vested at December 31, 2007. Compensation expense of $3,800 was recorded relating to RSUs during 2007.

14. Income Taxes

The Company's effective income tax expense has been determined as follows:

(in thousands of dollars)	2007 $	2006 $
Statutory federal and provincial taxes at 32.55% (2006 – 32.25%)	**3,239**	1,920
Increase (decrease) in income taxes resulting from:		
Rate differences for foreign jurisdictions	**185**	—
Effect of enacted future rates on temporary differences	**(82)**	(121)
Non-taxable foreign income net of non-creditable withholding taxes and other tax exempt income and other items	**(904)**	100
	2,438	1,899

Significant components of the Company's future tax assets and liabilities were as follows:

(in thousands of dollars)	2007 $	2006 $
Future tax assets		
Share issue costs	**631**	8
Tax basis in excess of carrying value of:		
Deferred development costs	**372**	446
Non-deductible reserves and pension liability	**1,019**	—
State loss carry forward	**200**	—
Other	**90**	43
	2,312	497
Future tax liabilities		
Carrying value in excess of tax basis of:		
Property, plant and equipment	**2,211**	1,364
Intangible assets	**3,349**	80
Deferred development costs	**238**	310
Inventories	**603**	—
Other	**118**	140
	6,519	1,894
	(4,207)	(1,397)

(in thousands of dollars)	2007 $	2006 $
Represented by:		
Future tax assets - current	**416**	11
Future tax assets - long-term	**—**	—
Future tax liabilities - current	**—**	(180)
Future tax liabilities - long-term	**(4,623)**	(1,228)
	(4,207)	(1,397)

The Company has state loss carry forwards of approximately $4.0 million that are available to reduce the taxable income of certain U.S. subsidiaries that expire at varying times from 2009 to 2027. The potential income tax benefits that will result from the application of U.S. tax losses have been recognized in these financial statements.

15. Commitments and Contingencies

Commitments

a) Operating Leases

The minimum annual rentals under the terms of operating leases for premises and automotive and office equipment are as follows:

(in thousands of dollars)	$
2008	1,779
2009	1,637
2010	1,115
2011	953
2012	861
Thereafter	1,758

b) Purchase Obligations

The Company has purchase obligations for equipment in the amount of $699,000 at December 31, 2007 that are expected to be paid in the first quarter of 2008.

Contingencies

In the normal conduct of operations, various legal claims or actions are pending against the Company in connection with its products and/or other commercial matters. The Company carries liability insurance, subject to certain deductibles and policy limits, against such claims. Based on advice and information provided by legal counsel, management believes that no provision for these matters is required and that their ultimate resolution will not have a material adverse effect on the financial position of the Company or its operations. The amount of loss, if any, incurred upon resolution of these matters will be recorded in the period in which the uncertainty regarding the matter is resolved and the amount of the loss can be reasonably estimated.

16. Earnings per Share

The following table sets forth the net income available to common shareholders and weighted-average number of common shares outstanding for the computation of basic and diluted earnings per share:

(in thousands of dollars)	Twelve Months ended December 31/07 $	Nine Months ended December 31/06 $
Numerator:		
Net income	**7,515**	4,056
Denominator:		
Weighted-average shares outstanding - basic	**25,536,328**	21,049,658
Effect of dilutive securities		
Stock options	**192,788**	440,197
Warrants	**—**	715,572
Weighted-average shares outstanding - diluted	**25,729,116**	22,205,427

17. Statement of Cash Flows

Supplementary disclosures required in respect of the Statement of Cash Flows are as follows:

(in thousands of dollars)	Twelve Months ended December 31/07 $	Nine Months ended December 31/06 $
Net interest paid	**536**	39
Income taxes paid	**3,545**	1,200

18. Related Party Transactions

A corporation controlled by a director of the Company provided trucking services to the Company during 2007. This director resigned from the Board effective September 18, 2007 and is no longer a related party. Included in manufacturing and selling costs in the consolidated statements of income in 2007 was $428,000 (2006 - $473,000) related to these services. The transactions were recorded at the exchange amounts being normal commercial rates for the services. Accounts payable and accrued liabilities included $22,000 (2006 - $26,000) owing to the corporation.

Certain components purchased for $103,000 (2006 - $165,000), included in manufacturing and selling costs in the consolidated statements of income, were provided by a corporation whose Chairman and CEO is an individual who became a director of the Company on May 15, 2007. The value of the components purchased from May 15, 2007 to the end of the year is $53,000. The transactions were recorded at the exchange amount being normal commercial prices for the products. Accounts payable and accrued liabilities included $1,000 (2006 - $3,800) owing to the corporation. There are no ongoing contractual or other commitments resulting from these transactions.

19. Other Expenses (Income)

Financing Expense (Income)

(in thousands of dollars)	Twelve Months ended December 31/07 $	Nine Months ended December 31/06 $
Short term interest, net of interest income	**57**	(39)
Interest, long term debt	**506**	—
Foreign exchange losses	**510**	39
	1,073	—

Amortization

(in thousands of dollars)	Twelve Months ended December 31/07 $	Nine Months ended December 31/06 $
Property, plant and equipment	**1,600**	801
Deferred development costs	**244**	89
Intangible assets	**1,728**	379
	3,572	1,269

20. Financial Instruments and Risk Management

Financial Instruments

The fair value of cash and cash equivalents approximate the carrying value due to the relatively short periods to maturity of these instruments. The fair value of long term debt approximates the carrying value due to the variable interest component of the debt.

Foreign Currency Risk Management

The consolidated financial statements are reported in Canadian dollars, including the results of its foreign subsidiaries. The Company operates globally, which gives rise to a risk that earnings and cash flows may be adversely affected by fluctuations in foreign currency exchange rates. The Company is primarily exposed to the U.S. dollar but also transacts in the Euro. The U.S. operations account for approximately one half of the Company's revenues and expenses. The Company's Canadian operations also purchase materials that are denominated in U.S. dollars and in 2007 these purchases approximated the earnings generated by the U.S. operations resulting in a natural hedge of the Company's overall earnings. While the Company's overall earnings were generally naturally hedged against fluctuations in the U.S.-Canadian dollar conversion rate, the gross amount of revenue and expenses can fluctuate based on changes in the conversion rate. For example, in 2007 the average conversion rate was $1.05, a $0.01 change in this rate would have increased or decreased the reported U.S. revenue amount of $55.9 million by approximately $0.6 million. There can be no assurance that this natural hedge will continue to occur and as a result the Company's earnings may be positively or negatively impacted by fluctuations in the value of the Canadian dollar. The Company does not currently use financial instruments to hedge these risks.

Interest Rate Risk Management

Available lines of credit are being utilized by the Company as required throughout the year. The lines of credit and long term debt bear interest at floating rates and changes in interest rates expose the Company to cash flow risk. The Company does not use financial instruments to reduce its exposure to interest rate risk.

Credit Risk Management

The maximum exposure to credit risk is represented by the carrying amount of the accounts receivable. The credit risk related to accounts receivable results from the possibility of customers defaulting on payment of these accounts. The Company deals largely with major oil and gas companies, distributors, and independent retail oil and gas companies. Ongoing credit evaluations are performed and allowances for potential doubtful accounts maintained. No one customer generally makes up more than 10% of revenue, but at a particular point in time, depending on the timing of sales, there may be higher proportionate exposure in accounts receivable. At December 31, 2007 and 2006, one customer accounted for 17% and 10% of accounts receivable respectively.

21. Segmented Information

Operating segments are defined as components of the Company for which separate financial information is available that is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker of the Company is the Chief Executive Officer.

The Company operates substantially all of its activities in one reportable segment, liquid containment storage systems, which include the manufacture and distribution of liquid storage systems including fiberglass underground and aboveground storage tanks and related products and accessories. Previous to this fiscal year, the Company's home heating oil tank operations also qualified as a reportable segment. This segment no longer meets the criteria for a reportable segment.

Information about Geographic Areas

	Revenues		Property, Plant, Equipment and Goodwill		Total Assets	
(in thousands of dollars)	2007 $	2006 $	2007 $	2006 $	2007 $	2006 $
Canada and Foreign	**48,834**	41,399	**17,408**	12,579	**39,308**	41,415
United States	**55,949**	—	**30,668**	—	**55,060**	—
	104,783	41,399	**48,076**	12,579	**94,368**	41,415

Revenue is attributed to the geographic area based on location of the Company's operations. Revenue and property, plant and equipment and goodwill related to operations outside of Canada and the U.S. was insignificant and therefore has been included in the Canadian and Foreign results.

Information about Major Customers

The Company has long-term contracts and alliance arrangements with many of the major oil and gas companies in Canada and provides products for distributors and retail oil and gas companies in the U.S. For the year ended December 31, 2007 and the nine months ended December 31, 2006, no single customer exceeded 10% of total revenue.

Information about Products

Providing information relating to revenue from external customers for each product, or group of similar products, is impractical and accordingly, only total revenue has been presented in the consolidated statements of income.

22. Comparative Figures

The comparative consolidated financial statements have been reclassified from statements previously presented to confirm to the presentation of the current period consolidated financial statements.

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Board of Directors

James S. Edwards, Chairman of the Board
Venence G. Côté, Director, President & CEO
Fred J. Dyment, Director
Roderick W. Graham, Director
Allan S. Olson, Director
Harold A. Roozen, Director

Annual General Meeting

1:00 p.m. on Friday, May 9, 2008
at The Westin Edmonton
10135-100 Street, Edmonton, Alberta

Corporate Office

6907-36 Street
Edmonton, Alberta
Canada T6B 2Z6

Common Shares Outstanding

As of March 17, 2008
Total Outstanding 26,445,529

Investor Relations

Copies of this Annual Report may be obtained
by calling Investor Relations at 780-466-6648
or e-mailing IR@zcl.com

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Canada T5J 3R8

General Counsel

Bennett Jones LLP
1000 ATCO Centre
10035-105 Street
Edmonton, Alberta
Canada T5J 3T2

Stock Listing and Share Symbol

Toronto Stock Exchange: ZCL

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COMPOSITES INC.

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1.800.661.8265
www.zcl.com

Mixed Sources
Product group from well-managed forests, controlled sources and recycled wood or fiber

Cert no. SW-COC-1383
www.fsc.org
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